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IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
TYLER DIVISION

SOVERAIN SOFTWARE	)	
	)	DOCKET NO. 6:07cv511
-v-	)	
	)	Tyler, Texas
	)	9:00 a.m.
NEWEGG, INC.	)	April 26, 2010

TRANSCRIPT OF TRIAL  
MORNING SESSION  
BEFORE THE HONORABLE LEONARD DAVIS,  
UNITED STATES DISTRICT JUDGE, AND A JURY

A P P E A R A N C E S

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Proceedings taken by Machine Stenotype; transcript was produced by a Computer.	



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1 P R O C E E D I N G S

2 THE COURT: Please be seated.

3 All right. I understand there's a matter  
4 before the jury comes in; is that correct?

5 MR. GIANNETTI: That is correct, Your  
6 Honor.

7 THE COURT: All right. And what would  
8 that be?

9 MR. GIANNETTI: Your Honor, at the  
10 hearing on the Motions in Limine asserted by the  
11 Plaintiff, we would like to submit a bench memo with  
12 respect to Motion in Limine 13 concerning an alleged  
13 non-infringing alternative, which is licensed after the  
14 hypothetical negotiation.

15 We're raising that now because in the  
16 Defendant's slides that they intend to use in opening,  
17 they rely upon that alleged non-infringing alternative.

18 And we have a bench memo --

19 THE COURT: All right. Hand it up.

20 (The Court reviews the document.)

21 THE COURT: All right. Response -- or  
22 excuse me. Go ahead.

23 MR. GIANNETTI: Your Honor, the case  
24 which I think is most relevant is the Pall case from the  
25 Federal Circuit, where -- and if I could just read a

1 little bit of that, Your Honor, and substitute the third  
2 party's, Defendant's, and Plaintiff's names.

3                   During the period before the third-party  
4 products were licensed, their presence in the  
5 marketplace did not defeat Plaintiff's entitlement to  
6 lost profit damages for all of Defendants infringing  
7 sales where the third-party products were not  
8 non-infringing substitutes.

9                   It was not necessary for Plaintiffs to  
10 continue the third-party litigation to judicial decision  
11 of the issue of infringement as Defendant argues that  
12 the voluntary settlement of litigation does not  
13 retrospectively transform an accused infringing product  
14 into a non-infringing substitute.

15                   And that's our situation, Your Honor. At  
16 the time of the hypothetical, Open Market was in a  
17 patent infringement lawsuit and sued Endo-Shop for  
18 patent infringement. That lawsuit was settled eight  
19 months later, at which time Endo-Shop received a patent  
20 license.

21                   Defendant argues that Endo-Shop was a  
22 non-infringing alternative at the time of the  
23 hypothetical negotiation when Endo-Shop is accused of  
24 infringing eight months before they received a license.

25                   THE COURT: Okay. Response?

1                   MR. BALDAUF: All right. Your Honor, we  
2 prepared a response.

3                   THE COURT: All right. Let me tell  
4 y'all, though, that jury is -- it's 9:00 o'clock. The  
5 jury has been sitting in there five minutes, and I'm  
6 just going to tell you upfront, during the course of  
7 this trial, this is not going to cut it.

8                   I'm not going to be handed bench memos I  
9 have to read while the jury's sitting in there. I'm not  
10 going to be arguing these things beforehand.

11 So go ahead and hand it up, but I'm just telling you --

12                  MR. BALDAUF: I can read this -- I can  
13 make my argument --

14                  THE COURT: Well, hand it up and make  
15 your argument very briefly.

16                  MR. BALDAUF: Very briefly, Your Honor.

17                  THE COURT: And whenever you file  
18 something, give me extra copies for my Law Clerks, too.

19                  All right. What do you have?

20                  MR. BALDAUF: The difference here is that  
21 in this situation, the time periods for damages is well  
22 after the time period.

23                  In the Pall case, it stands for the  
24 proposition that a settlement license does not transform  
25 an infringing product into a non-infringing alternative

1 in the time period before the license.

2 And here that's not an issue, because the  
3 entire damage period here is after, well after --

4 THE COURT: All right. How -- how  
5 important is it for you to mention this in your opening  
6 statements?

7 MR. BALDAUF: It's extremely important to  
8 us, Your Honor, because this is another software product  
9 that was out there that was licensed with this  
10 technology, and we believe it's a non-infringing  
11 alternative that was available to Newegg.

12 THE COURT: All right. I'm going to  
13 grant the motion in limine at this time. Don't mention  
14 it in opening statement, and I'll give you a ruling on  
15 the admissibility when it comes up during the course of  
16 the trial.

17 MR. BALDAUF: Real briefly, Your Honor,  
18 with respect to one of the slides that has been proposed  
19 by the Plaintiff, it appears that they're going to  
20 reference the Amazon license, as well as the other  
21 settlement licenses with the Defendants in this case, as  
22 evidence of commercial success.

23 I'd like to bring your attention to the  
24 decision in DataTreasury versus Wells Fargo from Judge  
25 Folsom from a few months ago, directly on point of how



1   that these types of settlement agreements are not  
2   evidence of commercial success.

3                   Number one, there has to be expert  
4 testimony from the Plaintiffs. There has to be some  
5 established nexus between those settlement agreements  
6 and the recognized commercial success or value of the  
7 patents as opposed to just the design to avoid for  
8 litigation, and that has not been done. In fact, it's  
9 nowhere in the any of their expert reports.

10 MR. ADAMO: Very brief response, Your  
11 Honor.

12                   Mr. Sayles is going to use this slide in  
13 his opening, which he's removed the names of the various  
14 licensees, which was on the version that I was given  
15 last night; but he has informed me in good candor that  
16 the names are going to be mentioned during trial.

17                   About five minutes. These are agreed  
18 exhibits. This stuff is all going to be in evidence.  
19 There's no requirement under law that evidence of  
20 secondary considerations, including commercial success,  
21 has got to be in an expert report. It is, by the way,  
22 in Professor Shamos' expert report. So it is there and  
23 certainly in his slides, which come directly from his  
24 report.

25 Two things that Mr. Giannetti mentioned

1 when you ruled in our favor last Monday to allow us to  
2 name the licensees -- and I didn't put the -- the  
3 numbers are not down here. I even changed the heading  
4 to take off any reference to commercial success -- and  
5 we told them this last night -- to make this more  
6 neutral.

7                   This is exactly what Mr. Giannetti argued  
8 to Your Honor a week ago today that you allowed us to  
9 do. The Plaintiffs -- well, his position is, no small  
10 licensees, and that's not going to be the situation for  
11 more than about probably 10 minutes.

12                   And I think the position is, you've got  
13 to have experts discuss commercial success, which is not  
14 the law, but in any event, Dr. Shamos has it, and we  
15 should be allowed to use this, Your Honor.

16                   THE COURT: Response?

17                   MR. BALDAUF: Your Honor, we -- with  
18 respect to the point of mentioning that there are larger  
19 licenses, that's not what we're talking about here.

20                   We're talking about the issue of  
21 commercial success in that reference. And there's been  
22 no established link between these settlement licenses  
23 and commercial success.

24                   THE COURT: Now, are y'all going to  
25 mention the licenses?

1 MR. BALDAUF: We have no interest in  
2 mentioning the Amazon license whatsoever, as we put in  
3 our motion in limine to begin with.

4 MR. ADAMO: Your Honor, they've moved  
5 into evidence and we've agreed, we're about to read the  
6 list into the record, all the small licenses, exactly  
7 the issue Mr. Giannetti argued to Your Honor last week  
8 when you allowed us to do what's in my -- in my slide.

9 MR. BALDAUF: Which were not in  
10 settlement litigation.

11 MR. ADAMO: Your Honor, that -- this has  
12 all been argued last week. Nothing has changed. This  
13 is exactly what you allowed us to do.

14 THE COURT: All right. I'm going to --  
15 I'm going to grant their objection. Don't go into that  
16 in opening statement, and I'll take it up when we get  
17 into the evidence.

18 Bring the jury in.

19 COURT SECURITY OFFICER: All rise for the  
20 jury.

21 (Jury in.)

22 THE COURT: All right. Each member of  
23 the jury, come back down to these four seats on the  
24 front row down on this end, please.

25 Thank you. I think it will be easier for

1 you to see down here.

2 All right. Please be seated.

3 All right, Ladies and Gentlemen of the  
4 Jury. Good morning, and welcome back. I hope you had a  
5 restful weekend and week and are ready to get started in  
6 this case.

7 I think we're going to work some pretty  
8 long days this week, but it's going to be our objective  
9 to try to finish the case by Friday. So if you'll bear  
10 with us -- and it's going to be some hard days -- but  
11 some -- I think you would probably prefer that than  
12 stretching it over into next week, if I would guess  
13 right.

14 But if anybody needs a break at  
15 anytime -- sometimes we get to going a little long with  
16 the testimony. If anybody needs to use the restroom or  
17 can't stay awake or whatever, raise your hand, and we'll  
18 take a short break.

19 Normally, I take about a 15-minute break  
20 in the morning, and usually an hour to an hour and 15  
21 minutes for lunch, and a 15-minute break in the  
22 afternoon. But we can take more short breaks, if we  
23 need to. So please feel free to let me know.

24 Now, what we're going to start out with  
25 this morning, I'm going to give you some preliminary

1 instructions, again, just as an overview of what this  
2 case is all about, a little bit of the framework of what  
3 the law is that you'll be applying.

4 I'm going to give you much more detailed  
5 instructions on the law at the end of the case. Plus,  
6 you'll hear the attorneys talking about it. You'll hear  
7 the experts talking about it.

8 So don't feel like you have to have  
9 everything down, you know, perfect this morning, but  
10 it's just to help you start getting familiar with it.

11 After I finish my opening instructions on  
12 the law and the contentions in the case, giving you an  
13 overview, you're going to hear the attorneys from both  
14 sides make an opening statement.

15 And as you'll recall, that's where  
16 they're going to outline for you what they believe the  
17 evidence is going to show in this case; and then after  
18 they've both had a chance to do that, then we'll start  
19 hearing the evidence.

20 So let me give you these preliminary  
21 instructions at this time.

22 You have all now been sworn in as the  
23 jury to try this case. Your job as the jury will be to  
24 decide the disputed questions of fact in the case.  
25 I, as the Judge, will decide all questions of law and

1 procedure. What comes into evidence, what the law is,  
2 that's all my province. But your province is the  
3 fact-finder. You're to seek the truth as to the facts  
4 of this case.

5 From time to time during the trial and at  
6 the end of the trial, I'm going to instruct you on the  
7 rules of law that you must follow in making your  
8 decision.

9 Very soon the lawyers for each side will  
10 be making what's called their opening statement, and  
11 that is to assist you in understanding the evidence.

12 However, realize what the lawyers say  
13 during their opening statements, that is not the  
14 evidence. The evidence you'll hear from the witness  
15 stand and from the exhibits that are admitted into  
16 evidence. And you should only rely on the evidence in  
17 making your decision.

18 Now, the party who brings the lawsuit is  
19 called the Plaintiff. In this case, the Plaintiff is  
20 Soverain Software, LLC, who will be referred to as  
21 Soverain.

22 The party against whom this suit is  
23 brought is called the Defendant. In this action, the  
24 Defendant is Newegg, Inc., who will be referred to as  
25 Newegg. This is a case of alleged patent infringement.

1                   After the opening statements, Soverain  
2 will call witnesses and present evidence. Then Newegg  
3 will have an opportunity to call their witnesses and  
4 present evidence.

5                   After the parties' main case is  
6 completed, Soverain may be permitted to present rebuttal  
7 evidence. Then I will restruct -- instruct you on the  
8 applicable law. Then you will hear closing arguments,  
9 and then and only then will you retire to deliberate on  
10 a verdict.

11                  During the trial of this case, keep an  
12 open mind. Do not decide any fact until you've heard  
13 all of the evidence, the closing arguments, and my  
14 instructions. Pay close attention to the testimony and  
15 evidence.

16                  If you would like to take notes during  
17 the trial, you may do so. The Court Security Officer is  
18 now going to pass out to you your juror notebooks.

19                  Inside your juror notebook, you should  
20 find a blank pad for note-taking. Should be in one of  
21 the pockets on the -- on the juror notebook. You should  
22 find a pad in there like this (indicates).

23                  If you would, the first thing I'd like  
24 for you to do is, on the cover of the pad, to write your  
25 name.

1                   After you've done that, then if you wish  
2 to flip to the second page to start taking notes or to  
3 the first page inside the notebook, you can.

4                   These notebooks will be taken up at the  
5 end of the day each day by the Court Security Officer  
6 and passed back out to you the next morning. They will  
7 be kept locked up and confidential.

8                   At the end of the case, they'll be taken  
9 up, and your notes will be shredded. So you can rely on  
10 the privacy of your notes.

11                  If you decide to take notes during this  
12 case, be careful not to get so involved in your  
13 note-taking that you're not listening to the testimony  
14 or you miss part of it.

15                  Even though the Court Reporter is making  
16 a -- stenographic notes of everything that is said, a  
17 typewritten copy of the testimony will not be available  
18 for your use during deliberations. On the other hand,  
19 any exhibits that are introduced into evidence will be  
20 available.

21                  Now, until this trial is over, do not  
22 discuss this case with anyone and do not permit anyone  
23 to discuss this case in your presence. This includes  
24 your family and friends.

25                  Do not discuss the case even with the



1 other jurors until all of the jurors are in the jury  
2 room actually deliberating at the end of the case.  
3 If anyone should attempt to discuss this case or  
4 approach you concerning this case, you should inform me  
5 immediately through my court staff.

6                   So, again, even though we're now starting  
7 the case, you're not free to begin to deliberate among  
8 yourselves. That only comes at the end of the case.  
9 So when you take a break, don't start talking about the  
10 case. If somebody should mention something about it,  
11 other jurors, you should just say: Remember the Judge's  
12 instruction. We're not supposed to talk about that  
13 until the end of the case.

14                   The same thing about discussing it with  
15 any of your family members or friends. You should not  
16 do that.

17                   Also during the trial, you should hold  
18 yourself completely apart from the people here in the  
19 courtroom that are involved in the case, the witnesses,  
20 the parties, and the attorneys.

21                   It is important not only that you remain  
22 fair and impartial but that you also appear to be fair  
23 and impartial. And that is why you should not have  
24 contact with any of them.

25                   This also means that if you have a social

1 networking site or tool, like FaceBook, MySpace, or  
2 Twitter, you should not discuss or even mention the case  
3 at all on those sites. Do not post updates about what  
4 is going on in the case, and do not send or receive text  
5 messages about the case.

6                   Also remember, don't make any independent  
7 investigation of any fact or matter in the case. Do not  
8 learn anything about the case from any outside source,  
9 such as television or newspaper. Do not use the  
10 internet or Google to find out more information about  
11 the case, the parties, or the attorneys in the case.

12                   For example, if you have a home computer,  
13 during this case, don't go home and get on your computer  
14 and start trying to figure things out. You are to be  
15 guided only by the evidence in the case, only by what  
16 you see and hear in this courtroom and not anything  
17 else.

18                   Again, if you did that, you could put  
19 these entire proceedings in jeopardy, and as you can  
20 tell, there's been a lot of expense and time -- time  
21 invested on your part and a lot of time and expense  
22 invested on the part of the parties and the Court, and  
23 we don't want that to go for naught.

24                   During the trial, it may be necessary for  
25 me to confer with the lawyers here at the bench or

1 outside of your presence. I will handle these matters  
2 as briefly and as conveniently for you as I can, but you  
3 should remember that they are a necessary part of the  
4 case.

5 I try very hard to not leave you sitting  
6 in the jury room. We say we're going to start at 9:00.  
7 I really try to start. Now, sometimes we're running a  
8 few minutes late, but I'm going to try my very best to,  
9 when you're here, have you here in the courtroom hearing  
10 evidence.

11 Now let me go over with you the parties  
12 and the nature of this case.

13 This case involves three U.S. patents,  
14 Patent Nos. 5,715,314, which is also known as the '314  
15 patent.

16 And patents are generally known by the  
17 last three digits of the patent, so you can see the  
18 three patent numbers here on the screen and beside it is  
19 the shorthand reference, which are the last three digits  
20 to the patent. These patents are referred to as the  
21 patents-in-suit.

22 The '314 patent and the '492 patent  
23 generally rely -- relate to a network-based sales  
24 system.

25 The '639 patent generally relates to

1 methods for controlling and monitoring access to network  
2 servers. You will hear more about the technology during  
3 the attorneys' opening statement.

4                   This case involves network-based sales  
5 systems used in E-commerce websites. Soverain contends  
6 that Newegg has infringed and is infringing one or more  
7 claims of the patents-in-suit by making, using, offering  
8 for sale, or selling within the United States products  
9 or processes that practice the invention claimed in the  
10 patents-in-suit.

11                   Soverain also contends that Newegg is  
12 inducing infringement of one or more claims of the '314  
13 patent and the '492 patent by others, namely, Newegg's  
14 customers.

15                   Soverain contends that it is entitled to  
16 money damages for Newegg's infringement. Newegg  
17 contends that -- or Newegg denies that it infringes the  
18 patents-in-suit and denies that Soverain is entitled to  
19 money damages.

20                   Newegg also contends that the asserted  
21 claims of the patents are invalid. Invalidity is a  
22 defense to infringement.

23                   Now let me visit with you about the U.S.  
24 patent system and how it works and how a patent is  
25 obtained. You saw some of that on the video you saw

1 last Monday.

2                   The U.S. Government is empowered by the  
3 United States Constitution to enact patent laws and  
4 issue patents to protect inventions. The purpose of the  
5 patent system is to help advance science and technology.

6                   The patent system achieves this purpose  
7 by granting to the owner of a patent the right, for the  
8 life of the patent, to exclude any other person from  
9 making, using, offering for sale, or selling anywhere in  
10 the United States the invention covered by the patent.

11                  A patent has a life for a limited amount  
12 of time which for the patent involved in this case has  
13 not yet ended.

14                  Once a patent expires, the invention  
15 becomes part of the public domain, which means that  
16 anyone is free to use it; and the patent owner, after it  
17 becomes a part of the public domain, may no longer  
18 exclude anyone from making use of the invention claimed  
19 in the patent.

20                  During the term of the patent, however,  
21 if another person, without the patent owner's  
22 permission, makes, uses, sells, or offers to sell  
23 something that is covered by the claims of the patent,  
24 then that person is said to infringe the patent.

25                  The patent owner may enforce a patent

1 against persons or customers believed to be infringers  
2 in a lawsuit in federal court as in this case.

3 Everyone, however, has the right to use  
4 existing knowledge and principles. A patent cannot  
5 remove from the public the ability to use what was known  
6 or obvious before the invention was made or patent  
7 protection was sought.

8 Thus, to be entitled to patent  
9 protection, an invention must be new, useful, and  
10 non-obvious.

11 To obtain a patent, the applicant must  
12 file a patent application with the United States  
13 Patent & Trademark Office.

14 After the applicant files a patent  
15 application, a Patent Examiner examines the application  
16 to determine whether the invention described in the  
17 patent application meets the requirements of the patent  
18 laws for patentable inventions.

19 If the Examiner concludes that the legal  
20 requirements for a patent have all been satisfied, he or  
21 she is said to allow the claims, and the application  
22 then issues as a patent.

23 The process, from the filing of the  
24 patent application to the issuance of the patent, is  
25 called patent prosecution.

1                   The record of the papers relating to the  
2 patent prosecution is referred to as the prosecution  
3 history or the file history of the patent.

4                   So you have the application coming in.  
5 You have a lot of stuff going back and forth with the  
6 Patent Office. Then the patent issues. Everything,  
7 from beginning to end, is what's referred to as the  
8 prosecution or the file history of the patent.

9                   The granting of a patent by the Patent &  
10 Trademark Office carries with it the presumption that  
11 the patent is valid. From the issuance of a patent, it  
12 is presumed that it is -- that its subject matter is  
13 new, useful, and constitutes an advance that was not, at  
14 the time the invention was made, obvious to one of  
15 ordinary skill in the art.

16                  However, that presumption of validity may  
17 be rebutted at trial, and you, the finder of fact, may  
18 find that the patent is invalid.

19                  Now let me go over with you the parts of  
20 a patent.

21                  You have been provided with copies of the  
22 patents-in-suit in your notebooks. Please take time to  
23 refer to the '639 patent in your binder, which is at Tab  
24 3.

25                  So if you'll flip over to Tab 3, I'm

1 going to go over this one as an example for you. You'll  
2 see there on the first page is the certificate of the  
3 Patent Office containing the language granting the  
4 patent.

5 Then if you turn the page to the next  
6 page, on the left-hand side, you'll see the cover page  
7 of the patent. The cover page of the '639 patent --  
8 and, again, you'll notice that's the '639.

9 If you'll look in the upper right-hand  
10 corner where it says patent number, then it's got  
11 7,272,639, that '639, the last three digits, that's  
12 what's referred to as the '639 patent.

13 This cover page of the patent provides  
14 the identifying information, including the date the  
15 patent was issued. You will see that up in the upper  
16 right-hand corner. It says date of patent: September  
17 18, 2007.

18 It also includes, over in the left-hand  
19 column, the names of the inventors. You'll see a few  
20 lines down, it says, Inventors: Thomas Mark Levergood,  
21 and then it lists a number of people.

22 A little bit further down on Line 22, it  
23 has the date that the patent was filed. That's called  
24 the filing date. That's January 12th, 1998.

25 And then up a couple of lines above that



1 at Line -- where it says 73, it refers to the assignee,  
2 which is Soverain Software, LLC. In other words, the  
3 assignee is the one that now owns the patent.

4 Then a little further down, it says,  
5 References cited: U.S. patent documents, and then it  
6 lists a number of patent numbers, names, and dates.  
7 This is what's called a list of the prior art  
8 publications that the patent officer considered, in  
9 other words, looked at, when he issued the '639 patent.

10 You'll hear more about that later.

11 A patent specification must contain a  
12 written description of the claimed invention telling  
13 what the invention is, how it works, and how to make use  
14 of it.

15 The specification of the '639 patent  
16 begins with an abstract, which is found on that first  
17 page in the right-hand column near the bottom. See  
18 where it says abstract?

19 And it says: This invention relates to  
20 methods for controlling and monitoring access to network  
21 servers. Then it goes on to give a brief description.  
22 It gives a brief statement about the subject matter of  
23 the invention.

24 Next are the drawings which appear --  
25 flip on over to Page -- three or four pages, and you'll

1 see a series of drawings starting where it says Figures  
2 1 through 6. These drawings depict various aspects or  
3 features of the invention. They are described in words  
4 later in the patent specification.

5                   The written description of the invention  
6 appears next. If you'll flip on over past the drawings  
7 and figures, you'll see a page that it has a 1 and a 2  
8 up at the top. Everybody have that?

9                   And it begins, related application, and  
10 then it has background of the invention. This is what's  
11 called the written description, beginning on this and  
12 the following pages.

13                   In this portion of the patent, each page  
14 is divided into two columns. You'll see the 1 and the  
15 2. If you'll flip the page, the next page has a 3 and a  
16 4 at the top. The next page, a 5 and a 6.

17                   So go back to the Column 1 -- the page  
18 that has Column 1 and 2 on it. These columns are  
19 numbered for your reference.

20                   So if somebody says, look at Column 1,  
21 then down the middle, you'll see some small numbers, 5,  
22 10, 15, 20, 25. That refers to the line number. So if  
23 somebody said, look at Column 1, Line 11, you'd look  
24 down, find Column 1, look down to the line below 10, and  
25 that would be background to the invention.

1                   So if someone said, I want you to look at  
2 the background of the invention, it begins at Column 1,  
3 Line 10, you would know to flip to that column, jump  
4 down to that line number, and there would be whatever  
5 they're referencing.

6                   The written description of the '639  
7 patent begins at Column 1, Line 1, and continues all the  
8 way to Column 10, Line 24. It includes the background  
9 section there in Column 1, then a summary of the  
10 invention beginning on Column 3 on the next page.

11                  Column 3, Line 4, that's the summary of  
12 the invention. Then in Column 4, it has a brief  
13 description of the drawings.

14                  Column 5 begins -- you'll see the  
15 title -- detailed description of the invention.

16                  You'll see over in Column 10 another  
17 paragraph that says: Equivalents.

18                  Now, the specification ends with the  
19 beginning of the next paragraphs which are called  
20 claims.

21                  You see in Column 10, Line 25 --  
22 everybody find that -- it says what is claimed is, and  
23 then it has a number of claims, 1, 2, 3, 4, 5, and that  
24 goes on for several pages.

25                  Look at Column 1 -- I mean Column 10,

1 Line 26 -- 25, and it says: What is claimed is (1) a  
2 method of processing, and then it goes through, and it's  
3 got several paragraphs.

4 Each claim may be divided into a number  
5 of parts, which are referred to as claim limitations.  
6 The '639 patent, the claims begin at Column 10, Line 25,  
7 and continue to the end of the patent.

8 Now let's talk about the claims of the  
9 patent. They're very significant, because the claims of  
10 the patent are the main focus of the case, because the  
11 claims at the end of the patent are what define the  
12 patent owner's rights under the law; that is, the claims  
13 define what the patent owner may exclude others in doing  
14 during the term of the patent.

15 The claims of a patent serve two  
16 purposes. First, they set the boundaries of the  
17 invention covered by the patent.

18 Second, they provide notice to the public  
19 of those boundaries.

20 The claims of the patent are what are  
21 infringed when patent infringement occurs because the  
22 claims define what the patent is.

23 Thus, when a product or a method is  
24 accused of infringing a patent, the patent claims are  
25 compared to the accused product or method to determine

1 whether there is infringement.

2           The claims are also at issue when the  
3 validity of a patent is challenged. In reaching your  
4 determination with respect to infringement and validity,  
5 you must consider each claim separately.

6           Now let me visit with you about what's  
7 called claim construction or construction of the claims  
8 or claim term definitions, if you will.

9           I'm going to instruct you now and at the  
10 end of the case about the meaning of some of the words  
11 that are used in the claims.

12           In deciding whether or not an accused  
13 product infringes a patent, the first step is to  
14 understand the meanings of the words used in the patent.  
15 It may be useful to refer back to the '639 patent as I  
16 discuss the claims at issue.

17           The claims, again, begin at Column 10,  
18 Line 25. These claims may exist in two forms referred  
19 to as independent claims and dependent claims.  
20 An independent claim does not refer to any other claim  
21 of the patent. In other words, it's not necessary to  
22 look at any other claim to determine what an independent  
23 claim covers.

24           Claim 1, for example, is an independent  
25 claim. In other words, it stands by itself. It doesn't

1 depend on any other claim.

2                   A dependent claim refers to at least one  
3 other claim in the patent. A dependent claim includes  
4 each of the limitations of the other claim that it  
5 refers to, as well as the additional limitations recited  
6 in the dependent claim itself.

7                   Therefore, to determine what a dependent  
8 claim covers, it is necessary to look at both the  
9 dependent claim and the other claim or claims to which  
10 it refers.

11                   For example, flip over to Claim 60 of the  
12 '639 patent, which is contained in Column 13, Line No.  
13 27. Everybody in Column 13, Line 27? And you can see  
14 it there on the board.

15                   Claim 60 is what's called a dependent  
16 claim. And you'll notice how Claim 60 begins. It says:  
17 The method of Claim 1, and then it goes on and says some  
18 other things.

19                   For example, to determine what the  
20 dependent claim covers, it's therefore necessary that  
21 you look at the words of the independent claim as well.  
22 So for Claim 60 to be infringed, not only does each  
23 element of it have to be satisfied, but so does each  
24 element of the claim to which it refers, Claim 1.

25                   Sometimes the claims of the patent use

1 the term comprising, as you'll see there in No. 60. And  
2 then it lists several methods. And you'll also see it  
3 up in Claim 1, the end of the second line says:

4                   Comprising the steps of, and then it  
5 lists those steps.

6                   Comprising means including or containing.  
7 A claim that uses the word comprising or comprises is  
8 not limited to products or methods having only the  
9 elements that are recited in the claim but also cover  
10 products or methods that add additional elements.

11                   Take, for example, a claim that covers a  
12 table. If the claim recites a table comprising a  
13 tabletop, legs, and glue, the claim will cover any table  
14 that contains these three structures: A tabletop, legs,  
15 and glue.

16                   Now, if you have a table that has those  
17 three things but also has other structures, such as a  
18 leaf or a wheel or wheels on the leg, that would  
19 nevertheless be included.

20                   Now that I have instructed you as to the  
21 types of claims at issue in this case, please take a  
22 time to look at the claim construction chart provided in  
23 your notebook at Tab 6.

24                   Now, what this is about, at some time  
25 prior to trial, the lawyers on both sides came to the

1 Court -- they met, conferred, had a meeting to see if  
2 they could agree on a meaning of some of the words.  
3 The words that they could not agree on the meaning of  
4 were then presented to me at an earlier -- what's called  
5 a claim construction hearing. And I heard legal  
6 arguments from both sides as to what a particular word  
7 meant.

8                   For example, in -- let's look down to the  
9 third claim term there, connected to. There was a  
10 dispute, and I resolved that dispute by saying that  
11 connected to means having a link to, to send or receive  
12 data.

13                   So that's the definition that I came up  
14 to -- with for those words. And this chart describes  
15 the meaning of all those words. It lists the Court's  
16 constructions for each of the patents and what that was.

17                   It was my job as Judge to determine what  
18 the claims mean and to instruct you about those  
19 meanings. You must use these meanings I give you when  
20 you decide the issues of infringement and invalidity.  
21 And you will hear some of the experts testifying about  
22 the way the Court defined a specific term in one of the  
23 claims.

24                   So that's an overview of the patent.

25                   You've heard about the written



1 description, which contains the abstract, a summary of  
2 the invention, and other matters, and you've heard about  
3 the claims at the end, which the claims define what that  
4 patent covers, and you've heard about the claim  
5 construction chart that helps define some of those  
6 words.

7                   Don't feel like you have to have all of  
8 that in your head now. It will become clearer to you as  
9 we progress through the trial.

10                   Now let's talk about the issues that you  
11 are going to be deciding in this case. I'm going to  
12 give you some information about those, as well as a  
13 short overview of the applicable law.

14                   Again, at the close of the case, you will  
15 see -- receive much more specific instructions that you  
16 must follow in reaching your verdict. You will also be  
17 given a verdict form and questions that you must answer  
18 in providing your verdict.

19                   And in very summary form, you'll be asked  
20 whether the Defendant, Newegg, has infringed the patent;  
21 you'll be asked whether the patent is invalid or not;  
22 and you'll be asked about damages in the case.

23                   And there are different burdens of proof  
24 dealing with each of these questions that you're going  
25 to be asked, and I'm going to discuss those burdens of

1 proof with you now.

2 In any legal action, facts must be proved  
3 by a legal standard known as the burden of proof. In a  
4 patent case, such as this, there are two different  
5 burdens of proof that are used.

6 The first is called the preponderance of  
7 the evidence standard. The second is called the clear  
8 and convincing evidence standard.

9 And you may have heard of a third that's  
10 called the beyond a reasonable doubt standard. That's  
11 used in criminal cases, but that does not apply in a  
12 patent case. We'll only be concerned with the first  
13 two.

14 In this case, Soverain must prove its  
15 case by a preponderance of the evidence. When a party  
16 has the burden of proof by the preponderance of the  
17 evidence standard, it means that you must be persuaded  
18 that what the party seeks to prove is more probably true  
19 than not true.

20 Put in another way, if you were put -- to  
21 put the evidence for and against the party who must  
22 prove the fact on opposite sides of a scale, the  
23 preponderance of the evidence standard requires that the  
24 scale tip at least somewhat towards the party who had  
25 that burden of proof. That's the preponderance of the

1 evidence standard.

2                   Now, Newegg, with regard to the defense  
3 of invalidity, has a heavier burden called the clear and  
4 convincing evidence standard. When a party has to prove  
5 something by clear and convincing evidence, it means  
6 that the evidence must produce in your minds a firm  
7 belief or conviction as to the matters sought to be  
8 established.

9                   In other words, if you were to put the  
10 evidence for and against the party who must prove the  
11 fact on opposite sides of a scale, the clear and  
12 convincing evidence standard requires the scale tip more  
13 heavily toward the party who has the burden of proof.

14                   Again, you may have heard of beyond a  
15 reasonable doubt. That does not apply in this case, and  
16 you should just put that out of your mind. The beyond a  
17 reasonable doubt is the highest standard, and then the  
18 preponderance of the evidence is the lesser standard in  
19 a civil case, and then clear and convincing evidence is  
20 somewhere in between.

21                   All right. Understanding those burdens  
22 of proof, let me talk with you about the various legal  
23 theories.

24                   The first is infringement. And, again,  
25 Soverain contends that Newegg infringes Claims 35 and 51

1 of the '314 patent.

2 And I would just suggest that you flip  
3 over to Page -- Tab No. 2. Tab No. 2 is the '314  
4 patent. Go all the way to the end, right before Tab 3,  
5 and start flipping backwards three or four pages to  
6 Column 10. So you should be looking at Column 10 of the  
7 '314 patent.

8 Now, Soverain contends that Newegg  
9 infringes Claims 35 -- so flip the page, and over in  
10 Column 14, you'll see Claim No. 35, okay? Circle Claim  
11 No. 35, just the number, so that you'll know which  
12 claims are involved, and Claim 51.

13 So flip over to the next page -- is that  
14 correct, Claim 51 of the '314?

15 MR. ADAMO: Yes, Your Honor, 35 and 51 of  
16 the '314.

17 THE COURT: My copy of the notebook just  
18 goes through Claim 48. Perhaps you meant 41?

19 MR. ADAMO: I'm checking, Your Honor. I  
20 don't believe -- it's re-examine -- Your Honor, I'm  
21 sorry. The '314 patent is one of the patents that was  
22 reexamined --

23 THE COURT: Ah.

24 MR. ADAMO: -- and you've got to go to  
25 the '314 patent reexam cert.

1 THE COURT: Which is No. 4, right?

2 MR. ADAMO: Yes, sir.

3 THE COURT: All right. I misled you,  
4 Ladies and Gentlemen. Flip over to Tab No. 4.

5 All right. At Tab No. 4, that's the most  
6 current -- see the date in the upper right-hand corner,  
7 October 9, 2007?

8 And it should say: Ex parte  
9 reexamination certificate, and that's where there was a  
10 reexamination of this patent by the Patent Office, and  
11 they issued this certificate, which is the one that  
12 applies to the claims contained in there.

13 And if you'll flip over to Column 1,  
14 which is three or four pages over, and you will see in  
15 Column 1 on the '314, Claim No. 51 in that column.

16 Does everybody find that? Should be on  
17 Tab 4 over three or four pages to where it begins the  
18 column number, and Column 1 says: Ex parte  
19 reexamination certificate issued under 18 U.S.C. 307.

20 And down about halfway, you'll see Claim  
21 51. Put a circle around that.

22 The attorneys are -- they're going to  
23 have this cut and pasted and on the screen for you, but  
24 I was just going to walk through these and circle them,  
25 if we can, easily.

1                   Let's see. The next one, Claim 17, would  
2 that be at -- I guess that would be over at Tab No. 5.  
3 Flip over to Tab No. 5 in Column 1, Claim No. 41 --

4                   MR. ADAMO: I think you were looking for  
5 Claim 17, Your Honor.

6                   THE COURT: Oh, you're right. Claim 17.

7                   MR. ADAMO: Yes, sir.

8                   THE COURT: Well, I tell you what, we  
9 won't find it in there now. This is too tedious. The  
10 lawyers will point them out to you. Just take my word,  
11 out of these patents and some of the reexaminations of  
12 the patents, there are certain claims that are at play  
13 in this case, and you might just want to make a note in  
14 your notebook.

15                   Soverain contends that Newegg infringes  
16 Claims 35 and 51 of the '314 patent. So the '314  
17 patent, Claims 35 and 51.

18                   As to the '492 patent, they contend that  
19 Claims 17, 41, and 61 are infringed.

20                   And as to the '639 patent, they contend  
21 that Claims 60 and 79 are infringed.

22                   Soverain also contends that Newegg  
23 indirectly infringes Claims 35 and 51 of the '314 patent  
24 and indirectly infringes Claims 17, 41, and 61 of the  
25 '492 patent by inducing the direct infringement of

1 others.

2                   And what I basically mention there,  
3 you've got two types of infringement. There's direct  
4 infringement and indirect infringement. Let me explain  
5 to you now what direct infringement is.

6                   There are two ways in which a patent  
7 claim may be directly infringed.

8                   First, a claim can be literally  
9 infringed.

10                  Second, a claim may be infringed under  
11 what is called the Doctrine of Equivalents.

12                  Soverain seeks to prove direct  
13 infringement both ways -- in both ways.

14                  To prove literal infringement of a  
15 particular claim, Soverain must prove, by a  
16 preponderance of the evidence, that Newegg's internet  
17 sales process contains each and every limitation of that  
18 particular claim.

19                  The Doctrine of Equivalents provides that  
20 patent protection is not limited to a claim's literal  
21 terms but also embraces its equivalents.

22                  To prove infringement under the Doctrine  
23 of Equivalents, Soverain must prove, by a preponderance  
24 of the evidence, that for each claim limitation not  
25 literally met by the accused internet sales process, the

1 limitation is met equivalently in the accused manner of  
2 use.

3 I will explain more about what is meant  
4 by equivalents at the end of the case.

5 Newegg denies that it directly infringes  
6 any of the claims.

7 So you've got the claims. You've got  
8 Soverain alleging direct infringement. They're alleging  
9 it in two ways, both literally and by the Doctrine of  
10 Equivalents. Newegg denies that it infringes any of  
11 those claims. Now that's direct infringement.

12 Then there's indirect infringement.  
13 Soverain also alleges that Newegg has indirectly  
14 infringed the asserted claims by inducing another to  
15 directly infringe.

16 To prove that Newegg induced someone else  
17 to infringe, Soverain must prove, by a preponderance of  
18 the evidence, that Newegg encouraged or instructed  
19 another person or company to use or sell a product in a  
20 manner that infringes; that Newegg knew or should have  
21 known that the encouragement or instructions would  
22 likely result in the other person doing that which you  
23 find to be an infringement.

24 And that Newegg intended to cause the  
25 encouraged acts and that the encouraged acts were



1 actually performed by the other person.

2                   Newegg denies that it indirectly  
3 infringes any of these claims.

4                   So, again, back to an overview. Soverain  
5 accuses Newegg of infringing these various claims both  
6 by direct infringement, which can be proven literally,  
7 or by the Doctrine of Equivalents, and indirectly by  
8 inducing others to infringe.

9                   So that's the infringement part of the  
10 case. That is just an overview. You'll get much more  
11 detailed instructions later.

12                   Now, Newegg claims the patents are  
13 invalid. Invalidity is a defense to patent  
14 infringement. A person accused of infringement has the  
15 right to assert that the claimed invention in a patent  
16 did not meet the requirements for patentability even  
17 though the patent was issued by the Patent Office.

18                   In other words, you the jury, in hearing  
19 this case will hear evidence, and you have a right, in  
20 essence, to overrule the Patent Office Examiner based on  
21 the evidence you hear.

22                   However, the fact that the Patent Office,  
23 Patent & Trademark Office of the United States, issued a  
24 patent in this case carries with it a presumption that  
25 they were correct and that the patent was valid. And

1 that presumption has to be overcome.

2                   The presumption of patent validity  
3 imposes the burden on Newegg to prove invalidity, not by  
4 a preponderance of the evidence, but by the clear and  
5 convincing evidence standard.

6                   Now, Newegg has a number of grounds for  
7 invalidity, and I'm going to go over those with you in  
8 just a moment, but let me just backtrack again. We've  
9 got infringement. I've discussed the various ways that  
10 a patent can be infringed. Then you've got the defense  
11 of invalidity. Infringement requires the presumption --  
12 requires the preponderance of the evidence standard.

13                   Invalidity requires a higher, clear and  
14 convincing evidence standard because of the presumption  
15 of validity that comes from the issuance of the patent.

16                   Now, how are the ways that Newegg can  
17 prove the patent is invalid? First, you need to  
18 understand the effective filing date of the '639 patent.  
19 The '639 patent was filed as what's called a  
20 continuation of another patent, and that other patent  
21 was the '780 patent. Soverain contends that the '639  
22 patent is entitled to the '780 patent's filing date  
23 because it was a continuation of that patent.

24                   Newegg, on the other hand, contends that  
25 the '639 patent is not entitled to the filing date of

1 the earlier patent. It's also referred to as the parent  
2 patent. So, in this case you have the parent patent,  
3 the '780 patent, that was then continued as the '639  
4 patent. And Newegg is contending that Soverain should  
5 be limited to the effective filing date of the '639  
6 patent. Soverain contends that they should be entitled  
7 to the earlier date of the '780 patent because it was a  
8 continuation.

9                   Newegg contends that the '639 patent is  
10 not entitled to the filing date of the parent '780  
11 patent and that it is invalid for intervening prior art,  
12 because the '780 patent fails to satisfy the written  
13 description, best mode, and enablement requirements to  
14 support the claims of the '639 patent.

15                   I am now going to address each of those  
16 requirements. So we're still talking about invalidity.  
17 Now we're talking, first of all, about written  
18 description.

19                   In order for a patent to be valid, a  
20 patent must contain a written description of the product  
21 claimed in the -- in the patent. To satisfy the written  
22 description requirement, the patent must describe each  
23 and every limitation of a patent claim in sufficient  
24 detail, although the exact words found in the claim need  
25 not be used.

1                   The written description requirement is  
2   satisfied if a person of ordinary skill in the art,  
3   reading the patent application as originally filed,  
4   would recognize that the patent application  
5   describing -- describes the invention as finally claimed  
6   in the patent.

7                   Newegg bears the burden of proving by the  
8   clear and convincing evidence standard that the '780  
9   patent does not meet the written description requirement  
10   as it relates to the challenged claims of the '639  
11   patent.

12                  So we've talked about infringement. Now  
13   we're talking about invalidity, talking about the first  
14   way a patent can be invalid. That's for lacking a  
15   correct written description. You will hear the experts  
16   for both sides talk about that. That's a question  
17   you're going to be deciding in the case.

18                  The second way that a patent can be  
19   invalid is what's called the best mode defense. The  
20   patent specification must disclose the inventor's  
21   preferred way or best mode of performing the claimed  
22   invention at the time the patent application was filed.  
23   This is referred to as the best mode requirement.

24                  In order to prove that the '780 patent  
25   does not disclose the best mode of the invention as it

1 relates to the challenged claims of the '639 patent,  
2 Newegg must prove, by clear and convincing evidence,  
3 that, first, at the time the patent application was  
4 filed, the inventor knew of a best mode of performing  
5 the claimed invention, and, second, that the '780 patent  
6 does not disclose that best mode.

7                   So, again, that's the second way, best  
8 mode that a patent can be found invalid. Both of them  
9 require the clear and convincing evidence standard.

10                   The next way is the enablement. A patent  
11 must contain a sufficiently full and clear description  
12 of the claimed invention. To be sufficiently full and  
13 clear, the description must contain enough information  
14 to have allowed persons of ordinary skill in the art to  
15 make and use the invention at the time the patent  
16 application was filed. This is known as the enablement  
17 requirement.

18                   In order to prove that the '780 patent  
19 does not satisfy the enablement requirement as it  
20 relates to the challenged claims of the '639 patent,  
21 Newegg has the burden to show by, again, clear and  
22 convincing evidence, that the '780 patent does not  
23 permit persons of ordinary skill in the art to make or  
24 use the invention without having to conduct undue  
25 experimentation.

1                   Next is anticipation. Newegg contends  
2   that the inventions covered by the asserted claims of  
3   the patents-in-suit are not new. An invention that is  
4   not new is said to be anticipated by the prior art. To  
5   prove that a claim is anticipated by the prior art,  
6   Newegg must prove by the clear and convincing evidence  
7   standard that each and every limitation of the claim was  
8   present in a single item of prior art. That's the  
9   anticipation defense of invalidity.

10                  Next is obviousness. Newegg also  
11   contends that a number of the asserted claims of the  
12   patents-in-suit are invalid for obviousness. To prove  
13   invalidity of a patent based on obviousness, Newegg must  
14   prove by clear and convincing evidence that the  
15   invention defined by the claim would have been obvious  
16   to a person of ordinary skill in the art at the time the  
17   invention was made.

18                  The hypothetical person of ordinary skill  
19   in the art that you've heard me refer to is a person of  
20   average education and training in the field of the  
21   invention and is presumed to be aware of all of the  
22   relevant prior art. You will hear evidence about the  
23   skill and experience of such a person during the course  
24   of the trial.

25                  Unlike anticipation, which allows

1 consideration of only one item of prior art, obviousness  
2 may be shown by considering more than one item of prior  
3 art.

4                   So to back up again. Talked about  
5 infringement, Soverain's burden, the ways in which  
6 infringement can be proven. Their burden is  
7 preponderance of the evidence. Talked about Soverain --  
8 about Newegg's defense of invalidity, the various ways a  
9 patent can be proven to be invalid and their burden of  
10 proof, which is the clear and convincing evidence  
11 standard. So we have infringement, we have invalidity,  
12 and now we're going to talk about damages. That's the  
13 third area that you'll be asked about in the case.

14                   Soverain claims that, as a result of  
15 Newegg's infringement, it is entitled to damages in the  
16 form of a reasonable royalty for Newegg's use of the  
17 inventions. Damages may not be speculative. Soverain  
18 must prove the damages it has suffered as a result of  
19 Newegg's alleged infringement by a preponderance of the  
20 evidence. There's that standard again.

21                   The fact that I am instructing you about  
22 damages, however, does not necessarily mean that  
23 Soverain is or is not entitled to recover damages.  
24 Again, that's going to be up to you to decide.

25 I will explain to you further at the end

1 of the trial how a reasonable royalty is determined.

2 And you'll hear testimony on that during the trial.

3                   At the end of the trial you will get a  
4 written charge that will have all of these instructions  
5 in it for you in much more detail than I'm giving it to  
6 you now, and you will also have a verdict form that will  
7 ask you some very simple questions dealing with the  
8 three questions: Infringement, invalidity, and damages.

9                   I know this all may seem very complex and  
10 may not make a lot of sense to you the first time that  
11 you hear it. Don't feel like you have to be an expert  
12 on patent law. There are going to be plenty of experts,  
13 and the lawyers, and the Court, and the witnesses that  
14 you will hear from.

15                   This is -- my instructions to you are  
16 meant to give you an overview so that, as you hear some  
17 of these items referred to in the opening statements and  
18 you hear them referred to by the witnesses, you will  
19 have some context to filter it through that's my  
20 overview of what the case is about, what the law is, and  
21 the questions you're going to be deciding as jurors.

22                   Let me just visit with you finally about  
23 your duties as jurors.

24                   You have two duties as jurors. Your  
25 first duty is to decide the facts from the evidence in



1 this case. That is your job and yours alone.

2                   Your second duty is to apply the law that  
3 I give you to the facts. You must follow these  
4 instructions even if you disagree with them. Each of  
5 the instructions is important and you must follow all of  
6 them.

7                   Perform these duties fairly and  
8 impartially. Do not allow sympathy, prejudice, fear or  
9 public opinion to influence you. Nothing I say now and  
10 nothing I say or do during the trial is meant to  
11 indicate any opinion on my part about what the facts are  
12 or about what your verdict should be. Again, you, the  
13 jury, will be the sole judges of the facts in this case.

14                   That concludes my preliminary  
15 instructions to you. We are now going to hear opening  
16 statements by the attorneys.  
17 Let me look here and see.

18                   Let me ask the jury. We've got -- each  
19 side has been allowed 30 minutes for your opening  
20 statement. Would you like to take a short break first  
21 before you hear the opening statements because they are  
22 going to go for about an hour? Why don't we do that.

23                   Let's take a break now until 10:25 and  
24 give you a chance to get a cup of coffee, use the  
25 facilities. Then we'll come back and we will hear the

1 opening statements, which will take about an hour.

2 So be in recess until 10:25.

3 COURT SECURITY OFFICER: All rise.

4 THE COURT: You may follow the Court

5 Security Officer to the jury room.

6 (Jury out.)

7 COURT SECURITY OFFICER: All rise.

8 THE COURT: Please be seated.

9 All right. Let me revisit this license

10 issue. I need to know -- what I want to know from

11 Newegg is, are you going, in opening statement, to go

12 into your argument that Soverain has only listed --

13 licensed these patents to these small no-name companies?

14 MR. SAYLES: Yes, we are.

15 THE COURT: Okay. If you're going to go

16 down that road --

17 MR. SAYLES: I'm sorry, sir.

18 THE COURT: Excuse me. Go ahead.

19 MR. SAYLES: Not by name, but I would say

20 we're definitely going to make reference to that.

21 THE COURT: Okay. Well --

22 MR. SAYLES: The names are not --

23 THE COURT: You know, my mind -- I've had

24 two or three cases going here. I'm getting this one

25 squared back in.

1                   And I believe Mr. Adamo was correct, that  
2   in the prior pretrial, I said that if you went into  
3   that, they would be able to go into the fact that they  
4   had licensed to significant companies, but they would  
5   not go into the amounts, and we would not get into all  
6   that settlement stuff.

7                   I think both sides agreed they did not  
8   want to get into that mess; is that right?

9                   MR. SAYLES: That's right.

10                  THE COURT: Okay.

11                  MR. ADAMO: That's correct, Your Honor.

12                  THE COURT: Okay. So that's all you're  
13   going to say?

14                  MR. ADAMO: You saw the slide. All I'm  
15   going to do --

16                  THE COURT: No, I didn't see it.

17                  MR. ADAMO: Oh, I'm sorry.

18                  THE COURT: You held it up, but I  
19   couldn't read it.

20                  MR. ADAMO: My apologies, Your Honor.

21                  THE COURT: Okay. All right.

22                  MR. ADAMO: That's -- that's all the  
23   slides. That's all I will --

24                  THE COURT: Do you have any objection  
25   with that?

1                   MR. SAYLES: That slide would be  
2 consistent with your ruling in the pretrial.

3                   THE COURT: Okay. So what was your  
4 objection this morning about then?

5                   MR. BALDAUF: Your Honor, it was the  
6 reference to these licenses with the entities that have  
7 been previously sued as evidence of commercial success  
8 as a secondary consideration.

9                   Amazon, CDW, all of these entities that  
10 settled --

11                  THE COURT: Isn't that what I just talked  
12 about that we decided at the pretrial?

13                  MR. BALDAUF: Well, it's how they're  
14 referenced, Your Honor, the idea of whether they can be  
15 referenced, the fact that they exist or whether he's  
16 going to go into the fact --

17                  THE COURT: Okay.

18                  MR. BALDAUF: -- that these are evidence  
19 of secondary consideration on obviousness.

20                  THE COURT: All right. How are you going  
21 to reference them, Mr. Adamo?

22                  MR. ADAMO: Your Honor, all I was going  
23 to do was -- and I apologize.

24                  Casey, can you put 22 up? There's the  
25 slide, Your Honor, if you can see it on the monitor.

1 THE COURT: Right. Okay.

2 MR. ADAMO: And I was simply going to put  
3 that up, and this has in a series -- short series of  
4 slides where I talk about contemporaneous recognition of  
5 the inventions.

6 I was going to simply put the slide up  
7 and say Soverain Software has also licensed the patented  
8 technology, and this is a list of the licensees. That  
9 was it.

10 THE COURT: Okay. All right. Is there  
11 any objection to that, if that's as far as he goes?

12 MR. BALDAUF: We don't maintain the  
13 objection in that -- in view of the fact that these are  
14 in settlement of litigation, we don't believe they're  
15 proper to put up.

16 THE COURT: Well, I'm not sure I want to  
17 get into settlement litigations, but if y'all are going  
18 to take the position that it's only been licensed to a  
19 bunch of no-name companies, I think they're entitled at  
20 least to show that it has been licensed to big-named  
21 companies.

22 But I don't think y'all want to get into  
23 the amount. I don't want to get into the amount. I  
24 don't think the others do. But if -- if -- you know,  
25 this is a tricky slope, once we start getting into them.

1 But you're teeing it up by arguing that  
2 they have not licensed it.

3 MR. BALDAUF: Well, Your Honor, I think  
4 there's a significant difference in that in the first  
5 instance, the agreements that we're relying on have not  
6 been entered into in settlement of litigation, and these  
7 have been.

8 THE COURT: Okay. But I'm -- I'm not  
9 going to let the jury just see half the picture. So  
10 even though these were entered into in settlement of  
11 litigation, they were significant licenses, so...

12 All right. You may go into that,  
13 Mr. Adamo.

14 Bring the jury in, please.

15 MR. ADAMO: Can I restore the slide?

16 THE COURT: Yes, you may.

17 MR. ADAMO: Thank you, Your Honor.

18 (Jury in.)

19 THE COURT: All right. Please be seated.

20 All right, Ladies and Gentlemen of the  
21 Jury. We're now going to hear the opening statements.  
22 The Court will recognize Mr. Adamo, who I don't believe  
23 you met last week. I think he was stranded in Europe  
24 somewhere due to the volcano going off, but he's --

25 MR. ADAMO: I was being held captive by a

1 volcano god, Your Honor.

2 [Laughter]

3 THE COURT: We will now hear opening

4 statements from Mr. Adamo.

5 Mr. Adamo?

6 MR. ADAMO: Thank you.

7 Your Honor, so that I don't have to turn

8 around and glance at the official clock, could I have a

9 five-minute warning from the Court, please?

10 THE COURT: Certainly.

11 MR. ADAMO: Well, good morning. I'm

12 always pleased to be in Tyler, but I'm particularly

13 pleased in contrast to where I was a week ago today. So

14 thank you.

15 Will -- Ms. Ferguson, could we get the

16 lights? Thank you.

17 And, Ladies and Gentlemen, we put a

18 monitor here at the end of the box that has exactly the

19 same thing that will show up on the big slide. Some of

20 us, who don't have great eyes, might find using this a

21 little bit easier, so...

22 Thank you, Your Honor.

23 Ladies and Gentlemen, this case is about

24 fundamental online shopping systems or methods that were

25 invented in 1994 and 1995. The inventors solved major

1 technical problems that had severely restricted online  
2 shopping development when the internet first became  
3 available for public use, which was in 1991, and the  
4 worldwide web was developed in 1991 and 1992.

5                   They created solutions that the industry  
6 and even Newegg's technical expert recognized were  
7 technically innovative. These solutions strongly  
8 influence right to this day online shopping, what  
9 sometimes is referred to as E-commerce.

10                   Soverain Software is the successor in  
11 ownership, the later owner of the patents-in-suit that  
12 resulted from those inventions. We're here because we  
13 seek payment, as provided by the law, for Newegg's use  
14 of these inventions in a very successful business that  
15 has turnover of over \$2 billion a year in online  
16 shopping.

17                   I want to spend just a little bit of time  
18 talking about technology. Dr. Grimes, our first  
19 witness, is going to get into this with y'all in a  
20 little more detail.

21                   The technology involved in this case, as  
22 Mr. Roth told you last Monday, is the internet and a  
23 part of the internet that's called the worldwide web.

24                   Sixteen years ago, when this work was  
25 first done, online shopping -- to the extent anything



1 existed that was called online shopping -- was  
2 absolutely in its infancy. It was nothing like we enjoy  
3 today.

4                   The inventors worked for a company at  
5 that time called Open Market. They were out of Austin.  
6 The company had been formed by a group of people who had  
7 an idea.

8                   The idea was let's develop a system that  
9 would allow companies to set up internet stores that  
10 will let people shop from their computers without having  
11 to leave their homes, just like shopping in a real store  
12 in a local shopping center would be. Try to duplicate  
13 the experience on a computer system.

14                   Sixteen years ago there were no complete  
15 online systems that could duplicate or even come close  
16 to the real-world shopping experience. Nothing came  
17 close.

18                   Now, the United States Patent & Trademark  
19 Office, after examining the patents, as His Honor just  
20 described to you, allowed three patents on the  
21 technology, and those are the three patents that are in  
22 suit, okay?

23                   So there's the '314 patent. And by the  
24 way, on the easel over there, Ladies and Gentlemen, are  
25 all of the original patent documents. Those are the

1 actual grants, the original documents that you get from  
2 the patent.

3                   They're essentially in order: '314 is  
4 the top left; the '492 patent is top center; '639 patent  
5 is actually bottom right. And it's down there because,  
6 you remember, His Honor said '639 patent had a parent, a  
7 continuation. That's '780. I put him/her in the upper  
8 right-hand corner so you can remember that the senior  
9 patent was party to the junior.

10                   Now, those are all the grant documents.  
11 Two of these patents, '314 and '492, have been through  
12 the Patent Office twice, okay? The '314 and '492 were  
13 reexamined at the request, actually, of amazon.com, but  
14 they were reexamined. We'll discuss that in a little  
15 bit more detail later.

16                   The evidence we're going to present to  
17 you is going to demonstrate, by a preponderance, that  
18 Newegg infringes these patents.

19                   We're going to focus on our asking you,  
20 Ladies and Gentlemen of the Jury -- this is what the  
21 evidence is going to focus on -- to require Newegg to  
22 pay us, according to the law and in the manner that the  
23 law provides, a reasonable royalty, as you heard His  
24 Honor say, for using the patented technology in those  
25 patents.

1                   Now, why do we ask that? It's real  
2 simple. Just like in everyday life, if you use somebody  
3 else's property without permission, you should pay for  
4 it. It's that simple.

5                   And we need your help to accomplish this.  
6 The evidence we will bring to you over the next several  
7 days will show you, we hope, that Soverain Software  
8 deserves that help.

9                   Let's go back 16-something years and talk  
10 to you first about the internet. The internet is a  
11 system of computers that are wired into each other, and  
12 they work essentially to send messages back and forth  
13 between a computer in your home and a computer located  
14 somewhere else -- somewhere else.

15                  Our first witness, Dr. Grimes, is going  
16 to give you a whole presentation on this that will  
17 explain to you that the internet is a network of  
18 computers. No single computer controls. They  
19 communicate with each other.

20                  And the two general types of computers  
21 are those that provide information or give you  
22 something, like if you want to look up a catalog, you  
23 want to see a canoe that might be on sale, those are  
24 called servers. They render a service. They give you  
25 something you ask for.

1                   And the computers that make the service  
2 request, essentially will be the one in your home, that  
3 one is called a client computer, sometimes a buyer  
4 computer. These are just internet basics.

5                   The internet works -- and Dr. Grimes is  
6 going to get into this in a little more detail -- in a  
7 way that is basic to computer communication. It's  
8 called packets. Dr. Grimes will get into this.

9                   Basically, what that means is, I put  
10 something together; I put it in a computer. I want to  
11 send an e-mail to somebody else. The system breaks it  
12 down into pieces, like sentence by sentence, and then it  
13 sends it out into the system.

14                   It can go any which way that the system  
15 allows to get to the recipient, and then the pieces get  
16 put back together.

17                   Originally, where this all came from,  
18 this comes out of the Department of Defense trying to  
19 build a communications system that during the Cold War  
20 couldn't get interrupted, so you had all these different  
21 pathways. But that's basically the internet.

22                   Until the early 1990s, all the internet  
23 really worked for was e-mails, text, no pictures.

24                   Before 1991, the government wouldn't  
25 allow commercial businesses to use the internet. That

1 ban was lifted in 1991. The first possibility then of  
2 coming up with an online shopping system.

3                   The real difference, though, the real  
4 difference was when the worldwide web was developed.  
5 This was developed between 1991 and 1992, and Dr. --  
6 excuse me -- Grimes will explain that as well.

7                   It takes advantage of something called a  
8 web browser. And this is about as far as the technology  
9 is going to go. Web browser, it's a computer program.  
10 It stays on your computer in your home, the client  
11 computer, and its particular power is, it allows access  
12 to text, pictures, video, music, the whole nine yards.

13                   Internet Explorer, those of you who have  
14 computers, that's a browser, okay? Mosaic is a browser,  
15 and the old Netscape was a browser.

16                   Now, before the worldwide web, the  
17 internet was really text-based. The worldwide web then  
18 presented the possibility of pictures. We can get  
19 pictures now into someone's home.

20                   Again, that now adds more ammunition to  
21 someone who is trying to design a system that will allow  
22 you, in your home, to duplicate the kind of shopping  
23 that you did in the store.

24                   Now, there's one other powerful thing  
25 that the worldwide web brought. Again, a good potential

1 tool for online shopping. They're called hypertext  
2 links.

3                   Now, scientists can't seem to get  
4 anything down into one word and make it simple. Why not  
5 just call them links? They're called hypertext links.

6                   And if you look up on the screen -- or at  
7 the monitor, there's a worldwide web page that just  
8 happens to be the Tyler Convention and Visitors Bureau  
9 page. The little tabs that you can see in the upper  
10 right-hand corner, all the various white tabs there,  
11 they are hypertext links.

12                   If you took your little computer mouse  
13 and clicked on the annual events link up there, you  
14 would end up getting a presentation on another page that  
15 would give you all sorts of information about various  
16 events here in Tyler throughout -- throughout the year.

17                   In some other situations, you click on a  
18 link, you get sound; you get pictures; you get graphics  
19 of all different types.

20                   Now, this is another big tool that  
21 potentially could have been used back in that  
22 timeframe -- so now we're in 1992 -- to try to come up  
23 with a real online shopping system.

24                   Let's talk about the people that the  
25 evidence is going to show, about the people involved.

1                   Open Market, as I said, Boston-based, was  
2   founded in December of 1993 by two men, a business guy,  
3   Shikhar Ghosh, and an MIT professor, a man named Dr.  
4   David Gifford.

5                   They added a bunch of additional people,  
6   including Mr. Treese, who is here and is going to  
7   testify, one of the inventors, and they set about this  
8   project.

9                   Now that's Mr. Treese. He's sitting  
10   behind me somewhere. That's him right now, and you'll  
11   see him in a day or two. But, remember, this was 16  
12   years ago when this work was done. And that's the  
13   timeframe you've got to keep in mind, 16 years ago,  
14   1994.

15                  Here's what the Open Market people looked  
16   like in 1994. And the guy all the way over on the right  
17   with the big fuzzy hair, and they're holding  
18   dandelions -- and I'll let him explain to you later what  
19   that's all about -- that's what these people looked like  
20   back in the day when this work was really done.

21                  Now, to help you focus on 1994 a little  
22   more, here are some historic things from 1994. Emmitt  
23   throwing his hands up after he scored a touchdown, and  
24   the Cowboys won the Super Bowl in 1994. That's Emmitt  
25   Smith in the middle.

1                   You know the gentleman in the lower left,  
2     who at that time was the Governor of the State of Texas.

3                   We won't mention the gentleman in the  
4     upper right-hand corner, but that crazy television  
5     search from out in California, that took place in 1994.  
6     Helicopters were watching.

7                   And almost the most interesting thing of  
8     all, down in the lower right-hand corner, that's a gas  
9     pump, and yes, it really does say 98.9 cents for  
10    regular. That's how long ago this all was, 16 years.

11                  So what was -- what was the challenge  
12    facing these folks, this group of people? They wanted  
13    to use the internet and the worldwide web to provide  
14    customers with a convenient shopping experience that  
15    resembled, as much as they could, real-world shopping,  
16    where customers were used to browsing through store  
17    aisles; you looked at something; you picked it up; you  
18    read the information on the product; one by one you'd  
19    put it in the shopping cart.

20                  You'd go a little further along. Maybe  
21    you would get to the next aisle and you'd go: Oh, I  
22    like this better than what I put in the shopping cart.

23                  So you'd take it out, and some of us go  
24    to checkout and give it back at checkout, and some of us  
25    go put it back, and some of us just leave it where it



1 is, right?

2                   And that's the kind of experience that  
3 they were trying to duplicate. So that was the idea  
4 that was driving them. How do we use the internet and  
5 the worldwide web to do that?

6                   But there's problems with the technology.  
7 The worldwide web and the internet had basic fundamental  
8 technical characteristics. You know, like I'm bald and  
9 I've got white hair and glasses, the internet and the  
10 worldwide web had basic technology characteristics that  
11 you couldn't get rid of. You had to work with them.  
12 One of the biggest ones was the web, and the way it  
13 talked to each other was stateless.

14                   Now, you'll get the detail -- the  
15 technical detail through the witnesses, but just  
16 remember, that was a huge problem, state and maintaining  
17 state to doing what these men were trying to do in this  
18 invention.

19                   Second problem: Sessions, which would be  
20 your going back and forth when you were on the computer  
21 as you -- as you replicated the shopping experience.  
22 That had to be tracked as well if the system was going  
23 to work. That was a problem that was unsolved in the  
24 early 1990s.

25                   Managing the session. You talked back

1 and forth to the computer that's not located in your  
2 house, the computer of the person selling the materials.  
3 Keeping track of that was necessary. Everybody knew it  
4 was a problem. Nobody knew how to fix it.

5                   How do you keep track of what's in the  
6 shopping cart, and in the shopping cart -- what are the  
7 contents in your shopping cart? We wanted a shopping  
8 cart because, again, they wanted to try to make this as  
9 real world as they could. That was a huge problem as  
10 well. Nobody knew how to fix it.

11                   Every time you get a request, the  
12 computer -- in your upper left-hand corner on this  
13 slide -- and you-all would be sitting at home going out  
14 to the merchant, because of the state problem, this  
15 inherent characteristic in the system, the system didn't  
16 know who it was talking to.

17                   Hard to believe as it was, this was a  
18 deliberate design. They did it this way deliberately.  
19 But the system didn't know who it was talking to.  
20 That's great in certain uses. It's terrible and totally  
21 non-functional if you're going to come up with an online  
22 shopping system.

23                   So these people were faced with a lot of  
24 problems.

25                   Another problem: Finishing the

1 transaction. You want to pay for the purchase while  
2 you're still online. You don't want to have to come  
3 back. You don't want to have to call up your credit  
4 card company. You don't want to have to send them a  
5 check.

6                   To the extent there were any systems  
7 around at that day for buying online, they didn't go all  
8 the way through to the end of the transaction. They  
9 stopped usually at around the purchase point.

10                   Another problem. Who wants to deal with  
11 that? That's worse than going to the store, because  
12 there's always a checkout counter at the store, and  
13 you're going to be able to pay at that point. Another  
14 problem that was facing these people.

15                   So in the spring of 1994, Treese and some  
16 of the other inventors leave DEC, a big powerful  
17 computer company -- was about at IBM's level -- and they  
18 joined Open Market.

19                   DEC wasn't ready to challenge and take on  
20 these technical issues about the worldwide web and the  
21 internet. DEC was doing very well doing what it was  
22 doing, and it just wanted to remain there.

23                   So these men joined Open Market, and you  
24 can see they're all there by May of 1994. And college  
25 kids that they almost still were, they worked like dogs,

1 and you'll hear Win Treese talk about this.

2                   They pulled all-nighters. They worked  
3 weekends. They never went home. They just worked and  
4 worked and worked and worked incredibly long, hard  
5 hours. And by May and June of 1994, they had started to  
6 solve these very difficult problems.

7                   They came up with a way to maintain  
8 session to handle the state problem. And how did they  
9 do that? They came up with something called a session  
10 identifier. It's just information or a piece of code.

11                   And that session identifier would go back  
12 and forth between the two computers, and that way the  
13 computers always knew who they were talking to and  
14 whether they were still in the same session or not.

15                   This is one of these elegant little  
16 solutions that we look back at, and you go, oh, yeah,  
17 gee, who wouldn't have done it that way? It was not  
18 that easy in the day, and they were the first ones that  
19 did it.

20                   The second thing they did to solve this  
21 problem was they came up with an entire online system.  
22 I refer to it as soup and nuts, from the beginning, when  
23 you get on the computer and you start looking for  
24 products and things that you want to buy, all the way  
25 through the shopping cart, the browsing capability,

1 further to the point of purchasing and completing the  
2 transaction.

3 Now today, almost everybody's got a  
4 shopping cart. In 1994, that was not the case.

5 So as you heard His Honor summarize  
6 earlier and briefly, the '314 patent and the '492  
7 patents are the ones that provide the overall solution  
8 to shopping and purchase transaction completion  
9 problems.

10 The '492 patent provides a convenient way  
11 for customers to view their past orders online rather  
12 than having to pick up the phone and call customer  
13 service.

14 So between these two, you had your  
15 complete soup-to-nuts shopping experience.

16 And then as His Honor also mentioned, the  
17 key disclosure and claims in the '639 patent came up  
18 with how do we control and manage the sessions? How do  
19 we keep the two computers knowing who's talking to whom  
20 and the fact that you're in a session, the shopping  
21 experience, and whether you've completed it or not?

22 This then solved all of the problems that  
23 everybody else, who had been taking a crack at this at  
24 this point, hadn't been able to solve. They came up  
25 with it. They're the ones who figured out how to take

1 the problems with the internet and the worldwide web and  
2 make them work for them.

3 Now, as the program was commercialized  
4 and as the business expanded, people paid attention.  
5 They started getting a lot of attention out in their --  
6 in their world in particular, but just generally, people  
7 were recognizing that, hey, these people have just done  
8 something that's important.

9 The Wall Street Journal and the New York  
10 Times had stories about the technology. They won a  
11 couple of industry awards, the Intranet Excellence Award  
12 that was presented by a certain company.

13 Very interesting. Mr. Tittel, Newegg's  
14 expert, in 1997, in a book that he wrote -- and you'll  
15 hear more about this later -- he praised what Open  
16 Market had developed.

17 He said: They're a leader in electronic  
18 commerce products since early '94. The software is one  
19 of the best, most viable ways for a business wanting to  
20 set up an online presence to go; and that the software  
21 functioned readily with a number of browsers.

22 Transact, which was the software, the  
23 commercial product, that they put out, successful,  
24 licensed to a number of people, big companies, AT&T,  
25 Time Warner, USA Today, also many of the phone companies

1 at that time.

2 And licenses continue, now that Soverain  
3 owns the patents, to companies such as amazon.com,  
4 TigerDirect, Zappos.

5 All right. Who's Newegg, right? Why are  
6 we chasing Newegg around? Are we picking on some poor  
7 person here that's inappropriate? Hardly. Newegg is  
8 the second largest online shopping company in the United  
9 States. Only amazon.com is bigger.

10 THE COURT: Mr. Adamo, you have ten  
11 minutes left.

12 MR. ADAMO: Ten, Your Honor?

13 THE COURT: Ten.

14 MR. ADAMO: Thank you, sir.

15 Newegg was founded in 2001, okay? They  
16 own and run the website www.newegg.com. And since the  
17 lawsuit started -- this lawsuit started in 2007 --  
18 they've actually launched two new websites,  
19 neweggmall.com and newegg.ca, which is a website based  
20 in Canada.

21 Newegg has been in the process of making  
22 a number of filings with the Securities and Exchange  
23 Commission relating to something they're doing with  
24 their business.

25 And in those filings, they're describing

1 themselves as a leading E-commerce company, online  
2 sales, online shopping, and they're telling people that  
3 their 2008 net sales were \$2.1 billion.

4                   Their website, www.newegg.com, is the  
5 only way they sell. They have no real-world stores.  
6 They live and die on the website.

7                   In fact, they told the Securities and  
8 Exchange Commission that the performance and reliability  
9 of the websites are key contributors to their ability to  
10 deliver high-quality customer experience.

11                   Unlike a lot of other competitors,  
12 though, they are not licensed. They're competing  
13 against people who are, but they are not licensed.

14                   All right. I've already told you that  
15 Lynn Treese -- I'm sorry -- Win Treese is going to  
16 testify about the invention's story.

17                   Jack Grimes, the good-looking young man  
18 that you see up here right now, is going to explain and  
19 demonstrate to you why the claims that His Honor  
20 mentioned earlier are infringed.

21                   And Dr. Grimes is going to go through and  
22 use information coming from this person in particular,  
23 James Wu. That's Newegg's technical head. He's  
24 testified under oath as Newegg's representative to  
25 explain their system.



1                   You'll see -- and Dr. Grimes will be our  
2 first witness. He's also got charts and documents and  
3 all sorts of detailed drawings such as this, which he  
4 studied extensively; and based on that, he will give you  
5 his views and show you that these claims are, in fact,  
6 being infringed.

7                   Now, as a -- just as a note, you may  
8 remember last week during voir dire, Mr. Sayles -- and  
9 I'm expecting you're going to hear this as part of the  
10 evidence. Mr. Sayles made a point about Mr. Wu  
11 supposedly designed Newegg's system and had never heard  
12 of any patents-in-suit.

13                   At the end of this case, His Honor is not  
14 going to tell you that intent or knowledge of the  
15 patents is necessary for us to prove infringement and  
16 for you to consider awarding us damages.

17                   If you infringe, whether you knew about  
18 it or not, that doesn't excuse your having to pay  
19 damages.

20                   Newegg is likely going to raise a whole  
21 bunch of other reasons why its infringement doesn't  
22 count.

23                   For example, Mr. Tittel may say that he's  
24 not using a shopping cart database. And you'll see that  
25 right about here on this diagram. When Dr. Grimes gets

1 up, you're going to see there's something labeled a  
2 shopping cart database right there in their system.  
3 We're also expecting that, amongst the various things  
4 they've raised.

5                   They may try to show that the way this  
6   system uses the shopping cart doesn't literally infringe  
7   Soverain's patents.

8 Remember, His Honor talked about literal  
9 infringement and Doctrine of Equivalents. Dr. Grimes  
10 doesn't agree. He's going to demonstrate to you that it  
11 infringes literally. But he's also going to show, under  
12 the Doctrine of Equivalents, that they are also  
13 infringing on that basis.

14                   Newegg may also try to defend by saying,  
15 well, we don't use the entire system that you have in  
16 your patents. Our customers do in part, even though we  
17 designed the system so the customers would use it  
18 exactly the way they do. And for some reason, that's  
19 supposed to be an excuse for infringement.

20 Dr. Grimes will show you that Newegg uses  
21 the entire system, uses its own servers, its own  
22 computers; and in the claims of one of the patents, the  
23 customers do take some steps in that patent, but they do  
24 it in a way directed exactly by Newegg.

25 THE COURT: You have exactly five minutes

1 left.

2 MR. ADAMO: Thank you, Your Honor.

3 Two more people you're going to -- three  
4 more people you're going to hear from. Katharine  
5 Wolanyk, the lady who's sitting right there at our  
6 table. She is the president and chief legal officer of  
7 Soverain Software.

8 Ms. Wolanyk will explain to you the  
9 follow-on story at Open Market, how Soverain became  
10 involved with Open Market and became the current owner  
11 of the technology and how the Transact software product  
12 that we mentioned earlier was developed and how it has  
13 come out into the marketplace.

14 Damages. We will give you a presentation  
15 on what we think the damages are here that the law  
16 supports. This is the part of the law that says the  
17 damages have to be adequate to compensate but no less  
18 than a reasonable royalty, as you heard His Honor say.

19 What's royalty? The equivalent in a  
20 real-property term would be rent. Patents are property.  
21 You use somebody's property; you pay rent.

22 Jim Nawrocki, he's behind me here --  
23 somewhere behind here. He is going to testify and  
24 explain our views on reasonable royalty and what a fair  
25 reasonable royalty is here under the law.

1                   He is going to give you his opinion on  
2 what the reasonable royalty per order or transaction  
3 should be, and he will explain this in detail. It's 80  
4 cents for the '314 patent or the '492 patent together;  
5 40 cents for the '639 patent; all in a dollar twenty.

6                   Now, you're going to hear from Newegg  
7 that we're ripping them off; that this is just an  
8 unconscionable amount of money, because when you take  
9 the dollar twenty, and you multiply it by the  
10 two-and-a-half approximate years that we say they owe us  
11 royalty for, last year, 12 million transactions, when  
12 you add that all up, you come up with a big number.

13                  I'm not denying \$34 million is a big  
14 number. But why is it a big number? Not because we're  
15 doing anything improper or overreaching; it's a big  
16 number simply because the extent, the breadth of  
17 Newegg's use of the technology, 2-plus billion dollars a  
18 year, that's the reason the number is so big.

19                  Last point. As His Honor told you, we  
20 don't have to prove the patent valid; they've got to  
21 prove it's invalid. They have all sorts of different  
22 arguments that you heard His Honor mention that they may  
23 bring up. Whatever they bring up that they previously  
24 told us about, we will respond.

25                  The gentleman on the screen right now,

1 Mike Shamos, will be our witness, who will answer any of  
2 these allegations of invalidity. The main one they're  
3 going to -- the piece of art they're going to rely on is  
4 something called CompuServe Mall.

5 But remember this: When those patents  
6 were reexamined -- remember I told you the '314 patent  
7 and '492 patent were reexamined -- the Patent Office was  
8 aware of CompuServe Mall in detail in both of those  
9 reexaminations, and they were aware of CompuServe Mall  
10 in the '639 patent.

11 So all of these patents were either  
12 allowed directly or reexamined to take into  
13 consideration what looks like their piece of prior art.

14 I thank you very much for your attention.  
15 I apologize that I wasn't here last Monday, but I'm glad  
16 that I'm here now. We really look forward to spending  
17 the next few days with you this week, and we appreciate  
18 your commitment in deciding this controversy between  
19 Soverain Software and Newegg.

20 That completes my opening, Your Honor.  
21 Thank you.

22 THE COURT: Thank you, Mr. Adamo.

23 Mr. Sayles?

24 MR. SAYLES: May it please the Court.

25 THE COURT: Would you like any time

1 warning?

2 MR. SAYLES: Yes, Your Honor. Would you  
3 tell me when I have ten minutes, five minutes, and one  
4 minute remaining?

5 THE COURT: Yes.

6 MR. SAYLES: Thank you.

7 Good morning, Ladies and Gentlemen. I'm  
8 Dick Sayles. I'm honored and pleased to represent  
9 Newegg in this case.

10 And you may have noticed we have an  
11 additional face at our counsel table. Mr. Dave Hanson  
12 is a lawyer who will also be participating in this case,  
13 and you weren't introduced to him earlier.

14 Let me start off by telling you why we  
15 are here and what the issues are that you have heard  
16 about a little bit.

17 First of all, the Soverain patents are  
18 not valid, and I'm going to get into detail about that  
19 in a few minutes.

20 An independent and separate reason that  
21 we're here is that Newegg doesn't infringe these  
22 patents, and I am going to explain that in a few  
23 minutes. Either one is a defense. They're not  
24 connected.

25 If the patents are invalid, that's a

1 defense. If there's no infringement, that's a defense.

2 Either one.

3 And, third, the reason we're here, the  
4 damages claimed in this case are grossly inflated, and I  
5 have to address that.

6 Now, you will recall in jury selection I  
7 told you the order that cases go in, it's determined by  
8 the rules. The Plaintiff always gets to go first. You  
9 have seen that in action this morning. There is so much  
10 that I want to say and so little time that I'm going to  
11 try to move quickly.

12 But I just wanted to remind you that what  
13 you saw in action is the way it's going to go throughout  
14 this case. So I'm going to ask you again to keep an  
15 open mind until you've heard everything.

16 I'll start by introducing our client.  
17 Newegg is an innovative, creative company, and it has  
18 achieved success. There's no doubt about that. But in  
19 the year 2000, it was struggling to survive. It was in  
20 the custom PC market at that time, personal computers,  
21 and the competition was heavy. It developed a strategic  
22 plan at that time to become an online internet retailer  
23 of electronics.

24 And I'm going to show you the home page  
25 of the Newegg website from around Christmastime. And I

1 know this is hard to see up here, but the number of  
2 products now offered are in categories, and they go  
3 across the ribbon here. And there are now over 40,000  
4 products that are sold by Newegg. 40,000.

5                   So it has become a successful online  
6 retailer, and it has benefited millions of ordinary  
7 citizens by providing very high-quality goods for a low  
8 price and good customer service. The development of  
9 Newegg, like any successful business, requires time,  
10 effort, talent of the people, and investment of money.

11                   I have to start this description of  
12 Newegg by introducing you to James Wu. He is in the  
13 courtroom. James, would you stand up briefly? This is  
14 James Wu I mentioned earlier.

15                   He is now the current chief technical  
16 officer of Newegg, and he was the architect of the  
17 computer systems that are involved here. I have to tell  
18 you a little bit about James so that you'll understand  
19 what he did and how significant what he did for Newegg  
20 is.

21                   James was born in China. He was the  
22 first in his family to attend college. He grew up with  
23 working-class parents. He did graduate from college in  
24 1991 and went to -- worked for an oil company where his  
25 job was in the computer field. His degree was in



1 computer science. And he developed systems to run a  
2 major refinery and other aspects of the petrochemical  
3 business.

4                   In the mid '90s, James, for training,  
5 visited the United States. He got to experience and see  
6 firsthand the freedoms that we have here and the way of  
7 life that we have. And he had a dream for his own young  
8 wife and his young child that he hoped to be able to  
9 move to the United States. He got his chance in 19 --  
10 in 1999, he came here, and he actually answered an ad in  
11 the newspaper for a job in Los Angeles.

12                   It turns out that that job was a job  
13 offered by Newegg, at that time, as I said, one basic  
14 product, and it was struggling. James took the job. In  
15 his first eight months on the job, his job was to  
16 convert the existing computer systems into a system that  
17 would handle a large volume of transactions and a lot of  
18 data. It was a challenging job. He had few resources  
19 and very little help. And James worked day and night to  
20 do this.

21                   The foundation for the computer system at  
22 Newegg at that time was a Microsoft system for which  
23 license fees are paid. He built on that to build the  
24 Newegg system.

25                   One of the biggest challenges was

1 computer space. Where do you put the data about  
2 products and all the information that's required to run  
3 a website?

4 Through James' skill, his knowledge, the  
5 experience that he had gained at Petro China and just  
6 using good old common sense and techniques that were  
7 known in the computer field, he developed the Newegg  
8 website, which launched in January of 2001. And that's  
9 a very important date, January of 2001.

10 I mentioned to you that the products of  
11 Newegg have grown steadily. This is a list that's hard  
12 to read. You will see this later, but it's everything  
13 from computers to cords. Here is a picture of a GPS,  
14 computer, big screen TV. The list goes on and on.

15 The company has grown by virtue of this  
16 website, and it uses the same website to this day that  
17 James Wu developed in 2001. It has grown to have  
18 warehouses in Los Angeles; Memphis, Tennessee; and in  
19 New Jersey, and it's known for its customer service and  
20 its fast shipping.

21 Even with strong competition and the  
22 dot-com bust that occurred, with very dedicated people,  
23 Newegg has become successful. But it's because of its  
24 people and its high-quality goods, its low prices are  
25 certainly a factor, and its customer service.

1                   Newegg has received numerous customer  
2 service awards, which we're going to detail in the  
3 evidence. This is just a representative sample of  
4 customer service awards that Newegg has received. It  
5 has received many.

6                   The patents -- Mr. Adamo mentioned  
7 this -- the patents in issue were not known to James Wu.  
8 He didn't copy them. He was even unaware of Soverain  
9 until this lawsuit was filed in 2007.

10                  Now, let me talk about how Soverain, the  
11 Plaintiff in this case, acquired the patents that are  
12 involved here.

13                  Soverain acquired these patents in 2003  
14 by a purchase from a company called Divine, Divine. I  
15 don't think you've heard that name yet. And Divine  
16 itself had only owned these patents for 15 months before  
17 they were sold to Soverain.

18                  Divine itself had purchased these patents  
19 from Open Market, that you did hear about, where the  
20 inventors were. And that was purchased in 2001. Open  
21 Market had employed these inventors, and they developed  
22 a product called Transact that had the patents embodied  
23 in them.

24                  It's a software program that you can buy  
25 and use it to run a website and do various things that

1 the patents describe. And it had other features. So  
2 Transact contained all that's claimed by these patents.

3 But Open Market was not successful in the  
4 business place. They ended up selling their patents to  
5 Divine. Divine was not successful. Although they  
6 acquired the patents and the rights to Transact, they  
7 lasted for about 15 months before they sold to Soverain.

8 Soverain has accused Newegg of  
9 infringement based on the website. And I'm going to  
10 show you in the evidence in this case, with the help of  
11 my colleagues and through witnesses, two independent  
12 reasons why Soverain cannot succeed.

13 The first is the failure to comply with  
14 the requirements for a valid patent. And the second is  
15 Newegg hasn't infringed these patents. Two separate  
16 reasons.

17 Let me talk about the patents being  
18 invalid.

19 As you heard in the patent video and from  
20 Judge Davis, the patent laws makes you a part of this  
21 process. The process to get a patent is a secret one.  
22 There's nothing wrong with that; that's just the way  
23 it's done. And Soverain, and actually Open Market and  
24 the inventors, participated back in 1994. It wasn't  
25 Soverain. It was actually Open Market and the inventors

1 back in 1994.

2 Newegg did not have an opportunity to  
3 contest or have input, nor did anyone else at that time  
4 who might be accused of infringement.

5 It's your decision, with a full deck of  
6 cards, to decide whether these patents are valid. Judge  
7 Davis showed you on the face of the patents, we know  
8 what prior art was considered because the law says it  
9 has to all be listed on the patent. And there's quite a  
10 list there; you'll see it later.

11 And to be a valid patent, the invention  
12 has to be new, useful, and non-obvious. And it can be  
13 invalid if the prior art already describes the invention  
14 or makes the invention obvious to a person of ordinary  
15 skill. Judge Davis has briefed you a little bit on  
16 that.

17 The prior art here does describe these  
18 inventions, and it makes the inventions obvious to a  
19 person of ordinary skill.

20 And you have to look at the invention as  
21 a whole. You fit the pieces together like the pieces of  
22 a puzzle. And if the evidence shows that these  
23 inventions were obvious, then these patents are invalid.

24 You ask yourself: How could the PTO make  
25 a mistake? Well, as you heard in the patent video, the

1 process does occur in private. There are many  
2 applications filed every year. There may be facts that  
3 the Examiner didn't consider.

4 And, simply said, mistakes are made.  
5 People are not perfect, and important information can be  
6 overlooked in this case.

7 You're going to hear from the experts.  
8 And you're going to hear with respect to this '314  
9 patent and the '492 patent, they merely converted the  
10 business process for dial-up online shopping to the  
11 internet. And the internet was already available to the  
12 public by the time these patent applications were filed  
13 in 1994. That was even on Mr. Adamo's timeline.

14 The shopping cart claims of the '314  
15 claim a monopoly on the purchase of two or more products  
16 using a computer. This is merely the same method that  
17 was used in the dial-up systems of CompuServe and  
18 applying them to the internet.

19 We're fortunate in this case that we have  
20 a witness named Sandy Trevor, who happened to be the  
21 chief technical officer of CompuServe prior to 1994.  
22 And you're going to hear his testimony about the facts.

23 And he will testify on the facts that  
24 CompuServe had pre-internet services where you dial in  
25 over a phone line using a personal computer. And it had

1 the features that are now claimed in this case.

2 I want to tell you also that there are  
3 three references that corroborate Mr. Trevor's testimony  
4 that were not before the PTO. And we know that because  
5 the list before the PTO is on the patents themselves.  
6 CompuServe CIM Running Start, 1993. Using CompuServe,  
7 1994. How to get the most out of CompuServe, 4th  
8 edition, 1989.

9 These books describe the characteristics  
10 of the CompuServe Mail system that you'll hear the  
11 experts explain, and you'll hear Mr. Sandy Trevor give  
12 you the facts about.

13 We'll call Mr. Ed Tittel as a witness in  
14 this case. And one thing I want to say about  
15 Mr. Tittel -- he's in the courtroom. Would you stand  
16 up, Mr. Tittel? This is Mr. Tittel.

17 Mr. Tittel, unlike the other experts who  
18 will testify in this case, is not a professional  
19 witness. This will be the first case in which he has  
20 ever given testimony to a jury. And you're going to  
21 hear that in contrast to the other witnesses in this  
22 case who are experts who have been in and out of  
23 courtrooms all over the country many times, Mr. Tittel  
24 is an author. He's written over a hundred books on the  
25 internet. And, in fact, some of you are familiar with

1 the Dummies series. And I'm holding in my hand HTML For  
2 Dummies, which he is the author of.

3                   He will testify that the internet emerged  
4 as a preferable way to connect home shopping prior to  
5 the time the inventors filed for their patents and did  
6 their work in this case. The CompuServe Mall was just  
7 known internet tools that would enable a person skilled  
8 in the art to apply that to the internet, the CompuServe  
9 Mall features. The CompuServe Mall features had a  
10 shopping cart, shopping cart database, and a shopping  
11 cart computer.

12                   The '492 patent is called the hypertext  
13 statement patent. And I didn't want to overlook that.  
14 You're going to hear testimony about that. It provides  
15 a link to display your order history, if you want to see  
16 your order history. And we don't know how many  
17 customers use it, but it appears to be only a few.

18                   The use of these hypertext -- hypertext  
19 links, you're going to hear, is just simply common  
20 industry knowledge. And it's the use of hypertext links  
21 for the very purpose for which they were originally  
22 designed.

23                   The '639 patent, its the session ID  
24 patent. That, too, sets forth methods that involve  
25 conventional web technology, and they're invalid.



1                   In short, and you're going to hear  
2 details on this, Open Market did not invent commerce by  
3 computer over the internet; they didn't. What Open  
4 Market patented was not new, it was not novel, and it  
5 was obvious.

6                   Now, the other reason we're not here is  
7 Newegg does not infringe. Remember I told you it's a  
8 separate defense. They don't infringe.

9                   A patent is a bargain between the  
10 government on the one hand and the party that applies  
11 for the patent on the other hand, and it provides the  
12 limits of what is covered. Just because you have a  
13 patent doesn't mean that you get to cover everything.  
14 Patents are strictly limited.

15                  Those claims that Judge Davis told you  
16 about define what the patent covers. His instruction  
17 was: A patent claim is directly infringed only if the  
18 accused system or method includes each and every element  
19 in that patent claim.

20                  Now, there are other ways to infringe  
21 besides direct infringement, that's true. But whatever  
22 method of infringement is alleged, each and every  
23 element must be included in some way. Nine out of ten  
24 is not enough. It takes ten out of ten if there are ten  
25 elements in a claim in order to have infringement.

1                   Now, the '314 patent, I'm going to tell  
2   you briefly why it's not infringed.

3                   The '314 is not infringed because the  
4   patent requires a database on the server side. The  
5   server in this case would be Newegg, and the customer  
6   side is the customer using their own computer at home.

7                   The product selections under the Newegg  
8   system are not stored on the server side -- on the  
9   Newegg side. They are stored, by design, in a cookie --  
10   and you're going to hear that described to you, what  
11   that is. It's a flat file on your personal computer.  
12   So the selection of products is actually stored on the  
13   customer side.

14                  Also, the claims of the '314 require a  
15   modification of a shopping cart database as products are  
16   added. That doesn't occur in the Newegg case.

17                  And all three patents in this case  
18   require participation by the customer for part of the  
19   elements and by Newegg for other parts of the  
20   elements -- of the elements that are included. And,  
21   actually, for infringement, one party has to meet all of  
22   the elements. Here the customer doesn't and Newegg  
23   doesn't.

24                  Now, I'm going to turn to damages. And  
25   you might -- let me say first before I talk about

1 damages, you heard Judge Davis instruct you that because  
2 he was instructing you on damages didn't mean that there  
3 were or were not any damages. The law says that you get  
4 instructions about how to consider damages.

5 As a lawyer, I told you in jury  
6 selection, I have a duty and an obligation to address  
7 the issue of damages.

8 Let me be clear. These patents are not  
9 infringed; and if they're not infringed, no damages are  
10 due. These patents are invalid; and if you find them  
11 invalid, no damages are due. But I'm duty-bound as a  
12 lawyer to address the issue of damages, so I do so now.  
13 Soverain's claim for damages in this case are grossly  
14 overinflated.

15 THE COURT: You have 10 minutes left.

16 MR. SAYLES: It was mentioned by  
17 Mr. Adamo that in the last year that Soverain -- excuse  
18 me, that Newegg had \$2 billion in sales. Dropped a big  
19 number on you.

20 When you hear the evidence, you're going  
21 to find out that's gross numbers. That's  
22 number-dropping is what that is. Ninety percent of the  
23 cost -- of the revenues is the cost of goods, before you  
24 even get into an analysis of your overhead and your  
25 depreciation, which we are going to address in the

1 evidence.

2                   So the damages are determined under the  
3 law by a hypothetical negotiation. And I know that's an  
4 odd and strange thing for you to hear, but you'll have  
5 instructions about that.

6                   And the hypothetical negotiation, it's  
7 where you have to reconstruct from the evidence what you  
8 think the parties would have done if they sat down at  
9 the table in 2001, the time of the first alleged  
10 infringement.

11                  Now, let me remind you about what was  
12 going on in 2001. In 2001 Newegg was an upstart. They  
13 were struggling. They had a plan and they had hopes.  
14 By hindsight we know they were successful; but in 2001,  
15 it was a dream and a hope. That's what Newegg would  
16 have sit down at the table with.

17                  And on the Open Market side, Open Market  
18 had lost about \$220 million in their business, and they  
19 were going downhill. And within eight or nine months of  
20 the hypothetical negotiation that you are to consider,  
21 they sold their patents and their rights to Transact  
22 over to Divine.

23                  One thing I want you to think about is  
24 the real-world evidence. And I'm talking about what  
25 existed in the real world.

1                   In this case, the real-world evidence  
2 will show that Newegg and Open Market are not  
3 competitors. The royalties here should not be based on  
4 some percentage of Newegg's total sale of products -- of  
5 products that are not patented. These patents address  
6 very narrow aspects of the sales process. And the total  
7 online revenues from the sale of TVs and computers and  
8 the contribution of good customer service and just plain  
9 running a good company shouldn't yield damages to  
10 Soverain.

11                   Let me discuss now the hypothetical  
12 negotiation. As I mentioned, it would be in January of  
13 2001. The Transact software product, now mentioned to  
14 you two or three times, which incorporates these  
15 patents, was sold by Open Market, and it began selling  
16 Transact in 1996.

17                   As I said, Open Market, in the business  
18 world, actually lost \$220 million in business between  
19 1996 and 2001, even though they had Transact, which they  
20 say incorporated the best features of online retailing  
21 since sliced bread. That's what happened in the real  
22 world. Even with Transact, it was not the patented  
23 features that drove demand for that product.

24                   Remember the name Mr. Ghosh that was  
25 mentioned? He was the chairman of the board of Open

1 Market. You're going to hear his deposition where he  
2 said that it was not even the patented features that  
3 drove the sales they did make of Transact.

4 In this case a running royalty wouldn't  
5 be fair. A lump sum is how royalties were actually paid  
6 in the real world. What I'm showing you here is a brief  
7 slide that shows the real-world patent licenses that  
8 were entered into by Divine around and shortly after the  
9 time of the hypothetical negotiation.

10 And the highest one is on the left, and  
11 it's for a hundred thousand dollars. That's the highest  
12 one. There are some in here for a thousand. There's  
13 even one for \$400. And these are real-world patent  
14 licenses here, patent licenses.

15 And the one that's a hundred thousand  
16 dollars was to a -- you will see the license  
17 agreement -- was to a Johnson & Johnson Vision Care,  
18 well-known company. Many of these other companies you  
19 probably will not have heard of, but Johnson & Johnson  
20 Vision Care you would have.

21 And the Transact product. You're going  
22 to consider the licenses with regard to Transact.  
23 Transact has not been licensed to a single new customer  
24 since the Open Market days. Ms. Wolanyk will admit  
25 that. And the licenses for Transact are paid in lump

1 sums. Then what's paid after that is maintenance fees.  
2 And the lump sums range up to \$344 thousand at the most.  
3 That's going to be the evidence.

4 And then here Mr. Nawrocki, the  
5 Plaintiff's damage expert, projects damages for just two  
6 years at almost \$34 million, 340 times the highest  
7 patent license that was entered into by Divine.

8 THE COURT: You have five minutes left.

9 MR. SAYLES: All right.

10 With regard to these damages, real-world,  
11 prior royalties on these patents back close to the time  
12 of the hypothetical negotiation and after, when Divine  
13 was trying to license the patents, were small.

14 These licenses were non-exclusive.  
15 That's a factor. The parties here are not competitors.  
16 Transact itself was not a profitable or commercial  
17 success. Two companies that actually had the rights and  
18 owned it, sold it and didn't succeed.

19 The patents in this case don't drive the  
20 demand for the Newegg products. And so the Plaintiff,  
21 who's claiming about 40 percent of Newegg's total  
22 profits, when you do the math on it, about 40 percent,  
23 their patented features, even if you assume they're  
24 there, don't drive the demand for the sales of the  
25 Newegg products.

1                   So we ask that you keep an open mind,  
2   because I know you are now. We ask that you consider  
3   the evidence as it comes to you throughout the case.  
4   And in the end, in the end, you are going to find that  
5   these patents were not infringed, that they are invalid;  
6   and you will find that these damages, if you even  
7   consider them at all, are grossly overstated.

8                   Thank you.

9                   THE COURT: All right. Thank you,  
10   Mr. Sayles.

11                  All right, Ladies and Gentlemen of the  
12   Jury, that concludes the opening statements. In a few  
13   moments we're going to go ahead -- I am going to let you  
14   have an early lunch break today. And then we will come  
15   back and start the evidence after lunch.

16                  Before we do, though, I have a couple of  
17   housekeeping matters I'd like to take care of. Is  
18   either side going to invoke the rule in this case?

19                  MR. ADAMO: I believe that was the  
20   assumption, Your Honor. Although I think it's probably  
21   not going to result in too many people being excluded.

22                  MR. SAYLES: We invoke the Rule.

23                  THE COURT: Ladies and Gentlemen of the  
24   Jury, the Rule has been invoked, and I will explain that  
25   in a moment.



1                   Do you have all of your witnesses that  
2 are here today, are they all in the courtroom?

3                   MR. ADAMO: Ours are, yes, Your Honor. I  
4 was just looking for witness Treese. Yes, they are.

5                   THE COURT: And are all of your witnesses  
6 that are --

7                   MR. SAYLES: Mr. Trevor is not here. I  
8 don't know if Mr. Bakewell has arrived. But two of them  
9 are.

10                  THE COURT: The first thing I'm going to  
11 do is I'm going to swear in all of the witnesses that  
12 are here today so we can just do it once rather than  
13 each time a witness comes to testify.

14                  So at this time, if you're going to be a  
15 witness in this case, I'd like for you to please stand.

16                  All right. Starting up here, if you will  
17 state your name for the record, please.

18                  MS. WOLANYK: Katharine Wolanyk.

19                  MR. CHENG: Lee Cheng.

20                  MR. GRIMES: Jack Grimes.

21                  MR. SHAMOS: Michael Shamos.

22                  MR. TREESE: George Winfield Treese.

23                  MR. NAWROCKI: James Nawrocki.

24                  MR. TITTEL: Edward Tittel.

25                  MR. WU: James Wu.

1                   THE COURT: All right. Please raise your  
2 right hands to be sworn.

3                   (Witnesses sworn.)

4                   THE COURT: All right. Please be seated.

5                   All right. Now, Ladies and Gentlemen of  
6 the Jury, the Rule has been invoked. And what that  
7 means is that if you're a witness in this case and  
8 you're not a party representative and you're not an  
9 expert witness, then you cannot be present in the  
10 courtroom while other witnesses are testifying.

11                  So, are there any witnesses that are not  
12 expert witnesses or party representatives that are in  
13 the courtroom?

14                  All right. Please stand, sir.

15                  Anyone else? All right. And your name?

16                  MR. TREESE: George Treese.

17                  THE COURT: George Treese? And --

18                  MR. WU: James Wu.

19                  THE COURT: All right. Very well.

20 Both of you, since you're not expert witnesses, you are  
21 covered by the Rule. The Rule means simply that you may  
22 not discuss this case, or anything about it, with anyone  
23 else other than the attorneys who are involved in the  
24 case.

25                  So during the course of the trial, you're

1 going to have to remain out of the courtroom until you  
2 testify. And while you're out of the courtroom, you're  
3 not to discuss the case among yourselves or with any of  
4 the other witnesses in the case. The only persons you  
5 can talk with are the attorneys involved in the case.  
6 Do you understand those instructions?

7 MR. TREESE: Yes, Your Honor.

8 MR. WU: Yes, Your Honor.

9 THE COURT: Okay. So when we come back  
10 from lunch and we're about to start the testimony, you  
11 two will remain outside the courtroom. The other  
12 witnesses that are experts can be in the courtroom.

13 You may be seated at this time.

14 All right. Now, with regard to exhibits,  
15 Ladies and Gentlemen of the Jury, what I normally do is,  
16 at the beginning of each day I have the attorneys offer  
17 a list of the exhibits that they're going to use that  
18 day that the other side has no objection to.

19 And, Counsel, we'll mark those as  
20 Plaintiff's Exhibit List A, or 1, or however you choose  
21 to do it.

22 And I will ask each side if there is any  
23 objections. I will admit those, and we will have a  
24 clear record.

25 The next morning you will give an updated

1 list to Ms. Ferguson and reoffer Plaintiff or  
2 Defendant's Exhibit List No. 2 that will include any  
3 exhibits that were handled individually during the  
4 course of the preceding day plus any that have been  
5 agreed to for that day.

6                   So at the end of the trial we have a list  
7 of everything that's been admitted into evidence.  
8 Understood?

9                   MR. SAYLES: I think so, Your Honor. We  
10 have worked together, and we were prepared to offer en  
11 masse almost all of the exhibits for Plaintiff and  
12 Defendant.

13                  THE COURT: Good. All right. Very well.  
14                  First, Plaintiff, do you have an exhibit  
15 list that you would like to -- Plaintiff's Exhibit List  
16 No. 1 that you would like to offer?

17                  MR. ADAMO: Yes, Your Honor. I have a  
18 short version that just lists -- is entitled Plaintiff's  
19 Soverain's List of Exhibits, to which Defendant Newegg  
20 has not objected. And then I have a more detailed  
21 explication that shows what each of the exhibits are.

22                  But in this form, it's simply the actual  
23 exhibit numbers, as I think Your Honor can see.

24                  THE COURT: Very well. We will mark that  
25 as Plaintiff's Exhibit List Number -- do you have a

1 number on it already?

2 MR. ADAMO: I do not, Your Honor.

3 COURTROOM DEPUTY: I got one, Judge.

4 THE COURT: What are you using?

5 COURTROOM DEPUTY: 1.

6 THE COURT: That will be Plaintiff's

7 Exhibit List No. 1. A will be just the list of numbers;

8 B will be the list of the descriptions. So you will

9 have Plaintiff's Exhibit List No. 1A and 1B.

10 Any objection to Plaintiff's Exhibit List

11 No. 1?

12 MR. SAYLES: No Your Honor.

13 THE COURT: All right. Be admitted.

14 All right. Does Defendant have any

15 exhibits it wishes to offer?

16 MR. SAYLES: Yes, Your Honor. May I

17 approach and get it marked?

18 THE COURT: Yes, you may.

19 MR. ADAMO: Your Honor, we also have a

20 joint stipulation that I will present to the Court when

21 Mr. Sayles is finished that also relates to the

22 situation with the exhibits that we've agreed.

23 THE COURT: All right.

24 MR. SAYLES: At this time the Defendant

25 offers Exhibit List No. 1, which does describe the

1 exhibit numbers and the description of the documents in  
2 the document itself.

3 THE COURT: All right. Any objection to  
4 the exhibits listed in Defendant's Exhibit List No. 1?

5 MR. ADAMO: No, Your Honor.

6 THE COURT: All right. All of those  
7 exhibits contained in Exhibit List -- Defendant's  
8 Exhibit List No. 1 are admitted.

9 So, Ladies and Gentlemen, we now have all  
10 the exhibits admitted into evidence, which are quite a  
11 few.

12 With those housekeeping -- do you have  
13 another housekeeping matter?

14 MR. ADAMO: Just one more, Your Honor.

15 There's a stipulation that Mr. Sayles and  
16 I entered into that really is belt and suspenders, make  
17 sure there's no waiver of any appeal issues, that all  
18 issues are preserved. And simply because we agreed to  
19 the admission here, it doesn't waive appeal rights.

20 So, it's --

21 THE COURT: I'll take that up with you  
22 later.

23 MR. ADAMO: That's all then, Your Honor.

24 THE COURT: All right. That concludes  
25 our housekeeping matters.

1 I'm going to give you, really -- well, we  
2 will be in recess -- it's 11:35. I will give you an  
3 hour and 10 minutes today to give you a little chance to  
4 find your way around town.

5 There's a Subway right down the street.  
6 You go out the courthouse, make a left and a right,  
7 there's a Subway there. A number of restaurants on that  
8 side of the Square, if you're not familiar with it.  
9 There's a Mexican food restaurant. There's several  
10 other restaurants. There's a hamburger place on this  
11 side of the Square.

12 So please plan to be back in the jury  
13 room and ready to go at 12:45 today when you come back  
14 from lunch.

15 Please remember my instructions. Don't  
16 discuss the case among yourselves or with anyone else.  
17 Enjoy your lunch. Have a nice break. We will see you  
18 back here at 12:45.

19 The jury is excused to the jury room at  
20 this time.

21 COURT SECURITY OFFICER: All rise for the  
22 jury.

23 MR. ADAMO: It's two of the same thing,  
24 Your Honor. They're identical.

25 (Jury out)

1 THE COURT: All right. Please be seated.  
2 All right. Now, what is this stipulation  
3 referred to, Soverain withdraws its objections to  
4 admissibility of Newegg's Exhibits 2 through 8 and 488  
5 through 506, but without waiving or prejudice to your  
6 right to challenge on appeal the admissibility or usage  
7 of these exhibits?

8 MR. ADAMO: Mr. Sayles and I were trying  
9 to be as efficient with the Court's time and the jury's  
10 time.

11 THE COURT: What are your objections?  
12 Have I had a chance to rule on these  
13 objections?

14 MR. ADAMO: Yes. Yes. Either it's  
15 something that's open or -- and we just didn't want to  
16 worry about the ruling or --

17 THE COURT: I see.

18 MR. ADAMO: They were milled -- what most  
19 of them were actually --

20 THE COURT: Okay. I just want to be sure  
21 I have a chance to rule --

22 MR. ADAMO: You did.

23 THE COURT: Just a minute. Let me  
24 finish, Mr. Adamo. I want to be sure I have a chance to  
25 rule on the objections.



1                   So as I understand this stipulation, it's  
2 not that I've already ruled on any of this, it's that  
3 you're going to make exhibits -- objections to these  
4 during the time of trial, and you're not waiving it by  
5 having them on this list?

6                   MR. ADAMO: No. In many instances, there  
7 are situations where you have ruled in the motions in  
8 limine --

9                   THE COURT: Well, motions in limine are  
10 not rulings on admissibility, and every side has the  
11 right to tender or to object on a ruling on a motion in  
12 limine.

13                  MR. ADAMO: And to avoid wasting a lot of  
14 time, we have entered into that stipulation. So the  
15 point being, I won't argue, if we go to appeal here,  
16 that there wasn't a sufficient -- that error wasn't  
17 preserved on the basis of not getting up and asking you  
18 again to rule on the MILs. In other words, I will stand  
19 on what 103(a)2 says.

20                  That was the intention of it, Your Honor.  
21 We weren't -- we weren't trying to slide anything by the  
22 Court. We were just trying to make this go a little  
23 easier.

24                  THE COURT: All right. Well, I'm not  
25 going to accept the stipulation at this time. If you

1 want to object to something during the course -- if you  
2 have not waived an objection -- I will accept the  
3 stipulation in this sense: You have not waived an  
4 objection that you may have to these exhibits. In other  
5 words, they're sort of provisionally admitted based on  
6 the earlier ruling.

7 But to preserve your objection, I want to  
8 hear your objection during the course of trial so I can  
9 understand it within the context. Because I will quite  
10 often change my mind on something I may have ruled on in  
11 a motion in limine. That's not a ruling on  
12 admissibility.

13 MR. ADAMO: Let Mr. Sayles and I visit, I  
14 think, Your Honor.

15 THE COURT: Okay. You withdraw your  
16 stipulation at this time?

17 MR. ADAMO: No. I prefer to have you  
18 hang onto it in view of what you just said. Now that we  
19 have a little guidance from the Court, let us visit  
20 again. As I said, we were trying to do something to  
21 save everybody time.

22 THE COURT: I appreciate that. That's  
23 fine. But I just don't want to sign something or accept  
24 some kind of blanket, you know, that you've already --  
25 Judge, you've already ruled on this, when I don't even

1 know what these exhibits are.

2 MR. ADAMO: With that further guidance,  
3 let us further visit.

4 THE COURT: We will be in recess then --  
5 excuse me. Go ahead.

6 MR. ADAMO: Thirty seconds more?

7 THE COURT: Okay. All right.

8 MR. ADAMO: We didn't mean to get on your  
9 bad side this morning by starting the day off and  
10 hitting you with papers. We really weren't trying to.

11 How would you like us -- because these  
12 things are going to come up, and there are still some  
13 evidentiary issues. We worked most of them out between  
14 us, but there are a couple still out there.

15 How would you like us to say it to you:  
16 We have an issue; we will get the responding brief so  
17 you won't get hit with it cold. What would be the  
18 preferred time for you to rule on things like that, or  
19 to consider them?

20 THE COURT: First of all, bring them up  
21 to me as soon as you know that it's going to be coming  
22 up in the testimony, as early as possible. Like if you  
23 have an issue that's going to come up with your first  
24 witness today, advise my clerks that this issue is going  
25 to come up, you would like a few minutes of time before

1 the jury comes in.

2 If you have any of those today, I will  
3 start back at 12:30 -- 12:35, and we will have 10  
4 minutes to deal with them.

5 If you have any written briefs, I  
6 don't -- one thing I do not want to be happening is, I  
7 don't want every night, y'all having 18 young lawyers  
8 cranking out 30-page briefs, filing them at 2:00 in the  
9 morning electronically, that I don't ever have a chance  
10 to look at.

11 So ask -- if you want to file a brief  
12 electronically, ask for permission to do so, so that  
13 I'll know it's coming, the other side will know it's  
14 coming. Because if one side files it a 2:00 in the  
15 morning, the other side doesn't have a chance to  
16 respond, and we get into that.

17 MR. ADAMO: Understood, Your Honor. I  
18 don't think Mr. Sayles and I work that way, so I'm not  
19 terribly concerned about it.

20 THE COURT: And any briefing you want to  
21 provide a copy of a case highlighted or a short brief,  
22 just get it to us in advance of the hearing where I have  
23 a chance to read it, where I don't have to sit up here  
24 and read it while the jury's waiting and you're waiting  
25 to argue it. Okay?

1                   MR. ADAMO: Understood. We do. We  
2 mentioned Dr. Grimes. We've got an issue percolating  
3 with Dr. Grimes, but we've worked out a way so it  
4 doesn't require you to rule on it. We can get his  
5 testimony in, and it's simply going to be whether  
6 certain exhibits are going to be demonstrative or going  
7 to come all the way into evidence under 1006.

8                   I shared with Mr. Sayles a brief  
9 yesterday when we met, and he has our views on that.  
10 He's going to put something together in response. We'll  
11 then get that to you. But we can go forward and do all  
12 of Dr. Grimes without having to wait for Your Honor to  
13 rule.

14                  THE COURT: Very good.

15                  Anything further, Mr. Sayles?

16                  MR. SAYLES: No, sir.

17                  THE COURT: Very well. We'll see you  
18 back at 12:45. We'll be in recess.

19                  MR. ADAMO: Thank you, Your Honor.

20                  (Lunch recess.)

21

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24

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1 C E R T I F I C A T I O N

2

3 I certify that the foregoing is a correct  
4 transcript from the record of proceedings in the  
5 above-entitled matter.

6

7 /s/

8 SHEA SLOAN, CSR

9 OFFICIAL COURT REPORTER

10 STATE OF TEXAS NO. 3081

11

12

13 /s/

14 JUDITH WERLINGER, CSR

15 DEPUTY OFFICIAL COURT REPORTER

16 STATE OF TEXAS NO. 267

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